# THE FOREIGN DEBT OF THE ARGENTINE REPUBLIC

BY

HAROLD EDWIN PETERS

A DISSERTATION

Submitted to the Board of University Studies of the Johns Hopkins University in Conformity with the Requirements for the Degree of Doctor of Philosophy

1934

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*To My Parents*

# PREFACE

The purpose of this study is to examine the export of capital as related to the finances of the Argentine Republic, in the hope that a limited investigation of a part of the broad field, besides having some intrinsic interest, will add to appreciation of the whole. Although my interest has been primarily in the recent period dominated by the United States money market, I believe that historical perspective must modify an estimate of the present situation.

In 1824, before the establishment of a single Argentine state, the Province of Buenos Aires contracted a loan in London, but defaulted four years later, finally arranging a settlement in 1857. For twenty years following 1861, when a permanent union was formed, provincial borrowing overshadowed that of the national government, which after 1880 played by far the dominant rôle. During the decade from 1880 to 1889, borrowing went on at a tremendous rate, culminating in disaster for both the Argentine and its creditors. Perhaps the most remarkable episode in the nation's financial history was the rapid recovery from the low point of that era.

During the World War, the government's financial needs were at first partly satisfied by American capital; but the relationship was temporary. The flotation of a long term loan was first made in 1924. Thereafter offerings came rapidly, so that nearly three hundred millions were taken by the national government alone. This would not in itself be an excessive debt for so wealthy a nation. Because of weak financial policies, it has only served to encourage the creation of a larger

debt than would have been otherwise possible, and to delay needed reforms.

Intimately related to national finance in the Argentine is its monetary and banking system. A large internal debt, placed in large part at short term in Buenos Aires banks, has been important in determining monetary policy, especially since the abandonment of the gold standard in 1929. In spite of excessive governmental short-term paper, there has been a slight contraction of currency and credit, accompanied by a small decline in the price level. On the whole, however, the price level has been remarkably stable for the last twenty years, during seventeen of which the peso was inconvertible.

I am particularly indebted to Dr. Jacob H. Hollander, Professor of Political Economy in the Johns Hopkins University, who suggested the general field of inquiry and constantly guided and encouraged my efforts.

Dr. W. O. Weyforth of the Johns Hopkins University has read part of the manuscript, has contributed many suggestions, and has improved my opinion on many theoretical points.

I am grateful to my friends at the library of the Johns Hopkins University, at the Library of Congress, and at the Tornquist Bank Library in Buenos Aires, for their courtesy and aid in assembling materials. My teachers and fellow students at the Johns Hopkins have helped this work in more ways than they imagine. Discussion with others interested in the problem, both in Argentina and the United States, has been invaluable. A subvention from the Lessing Rosenthal Fund for Economic Research of the Johns Hopkins University has made possible publication in the present form.

H. E. P.

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# CHAPTER I

## The Foreign Debt to 1880

I. Periods of Argentine Borrowing. II. Political Situation in 1824. III. Economic Life, 1810-1825. IV. Expansion of the London Money Market. V. The London Loan. VI. Default. VII. Other Foreign Capital, 1820-1829. VIII. Settlement of the Debt. IX. Loans of 1866-1868. X. Public Works Loan of 1871. XI. Crisis of 1875.

### I. PERIODS OF ARGENTINE BORROWING

The Latin-American republics have always been burdened with debt, perhaps as a necessary condition of independence. In the first two chapters of this study a brief sketch of the history of the Argentine foreign debt to 1914 will be presented, in the belief that something can be learned even from a partial account of the financial history and economic background of that nation. The great foreign loan movement of the United States during the post-war decade can be better understood, too, if examined in the light of a chapter of British experience.

The flow of capital from Great Britain, and later from the continent and the United States to debtor countries, has been an intermittent one. Waves of intense optimism, during which almost any properly engraved certificate could be sold at a high price, have alternated with troughs of profound pessimism, in which the export of capital stopped completely.

There is one thing for which a subscriber to an issue of foreign bonds by an undeveloped country must be prepared—an interval of default. Experience has demonstrated that few such loans are repaid without

some lapse. Every South American state has been in default at least twice; Spain, Turkey, Greece, and Egypt, several times. In recent years even the older creditor nations of continental Europe, and Great Britain itself, have either defaulted outright or have been pressed into an equivocal attempt to repudiate their own obligations, while solemnly avowing the validity of debts payable to them. The story of the defaults of our own Southern States after the panic of 1837 is familiar enough; these bonds are still denied listing by the London Stock Exchange. The United States itself has been accused of a measure of default in refusing lately to pay its obligations in gold.

Political developments overshadowed economic changes in the Argentine until 1880, when a strong federal government was established, and public borrowing on a great scale began. In this period before 1880, there were three distinct divisions. The first centered about the London Loan of 1824, when the British investor first displayed interest in foreign stocks, and ended with the crisis of 1825. The second phase was associated with the loan of 1866-1868, when funds were raised for the prosecution of the Paraguayan war. Finally, one national loan and four provincial loans were issued in London between 1870 and 1875, when interest in foreign bonds ran high. These operations will be described in the first chapter; the great expansion after 1880, culminating in the Baring Panic, is treated in the second.

## II. POLITICAL SITUATION IN 1824

Spanish America emerged from the colonial system in 1810, when a revolution directed against French domination broke out at various centers. Buenos Aires, a city of some forty thousand inhabitants and capital of the vast Viceroyalty of the River Plate, had already felt

the touch of war, having beaten off two English invasions in 1806 and 1807—attacks of significance as indicating the importance of trade relations.[1] This trade had theretofore been maintained exclusively by smugglers and by occasional licensed British merchantmen, privileged under the Treaty of Utrecht to barter slaves and a limited quantity of manufactures for native products.[2] Having acquired a measure of self-dependency from successful resistance, Buenos Aires liberalized commercial regulations, and after the revolution of 1810, inaugurated an era of free exchange. The arrangement was so popular that the mere royal threat of its abrogation brought an immediate declaration of independence. The loyalist forces attacked from the North, entering Argentine territory from the highlands of Peru. So little were the colonists menaced that they were able to send an army into Chile, under San Martín, to dislodge the Spaniards there. The struggle was not finally settled until 1824, when by the Battle of Ayacucho, Spanish power in the Argentine was completely destroyed.

With independence thus achieved, and virtually guaranteed by the United States and Great Britain, the new states, each succeeding to the territory of a viceroyalty, faced the problem of organizing into some political order their scanty population scattered over immense areas. Internal disorders during the revolutionary period were overlooked, and in the expectation of succeeding domestic tranquillity the support of the British

[1] Some fifteen thousand men were sent in the second expedition in spite of the need for troops in the European campaign. General Whitlocke, the British commander, was tried by court martial for his incompetent leadership; the record of the trial supplies the standard account of the "English invasions."

[2] This was the "Assiento" privilege, the abuse of which by smuggling led to constant friction between Spain and England.

capital market was extended in the eighteen-twenties in the form of governmental loans and mining investments. The confidence was unjustified. With some brief intermissions, sanguinary civil wars split the states into fragments. Even in the Argentine, perhaps the most successful instance, a half century was required before a permanent union was formed, whereas Uruguay and Paraguay, also parts of the Viceroyalty of the River Plate and geographically complementary to the other provinces, remained independent.

From the beginning, a federation had been planned. Several national congresses met between 1810 and 1825; but the connections formed were loose, and the appellation adopted, the United Provinces of the Rio de la Plata, had little basis in fact. Buenos Aires, the province situated along the south bank of the River Plate and extending inland a hundred miles up the Paraná, its tributary, dominated the country by reason of position. Its capital was the natural entrepôt for foreign commerce, and its population was comparatively large and concentrated. Adventurous travellers were the only foreigners who penetrated to the interior provinces. The foreign mercantile community had established itself in the city of Buenos Aires, and financial contact was limited to the provincial government there established. This it helped with private loans, and by introduction to London bankers. The other provinces had no such contacts, and figure in our account only as affecting the political position of the major province, notably in the temporary union of 1826-1827.[3]

[3] For first hand details of the country during the revolution, see the reports of the United States Commissioners, Poinsett, Rodney, Graham and Bland, printed in various editions and included in the *British and Foreign State Papers*. Dr. Leo S. Rowe has contributed an excellent summary of this time in his *Federal System of the Argentine Republic*, pp. 33-40.

## III. ECONOMIC LIFE, 1810-1825

In Buenos Aires, commercial expansion did not wait for political stability. After the repulse of the British armies in 1807, trading restrictions broke down completely. Interchange immediately began with the late enemies, some of whom preferred to cast their lot with a younger community, while others were purely commercial invaders who came to conquer by trade where force had failed. After 1810 there were occasional blockades by Spanish fleets, and exchange with the mother country was at an end. But Great Britain more than filled the place. By 1811 a "Sala Commercial" was founded by English merchants,[4] and Buenos Aires hides became a standard commodity in the London market. The names of these pioneers are found in the list of founders of every important Argentine enterprise of the day. They developed a community life and in 1826 there were English schools, churches, hotels, shops, craftsmen, and even a weekly newspaper, *The British Packet.*[5]

[4] De Vedia, *El Banco Nacional,* p. 50, taken from J. A. Wilde, *Buenos Aires desde Setenta Años atras,* and also mentioned in M. G. Mulhall, *The English in South America.* Later the growth of the British colony was accompanied by the appearance of traders of other nationalities, especially North-Americans. Cf. E. J. Pratt, "Anglo-American Commercial and Political Rivalry on the Plate, 1820-1830," in the *Hispanic American Historical Review,* August, 1931, pp. 302, 335. The writer points out that although in 1824 the number of American ships visiting the port exceeded the British, there were only three Yankee firms, Ford, Zimmerman, and Stewart and McCall (Mulhall, p. 608), and but one French and one German house, while there were forty British houses. The number of British residents in 1823 was put at 3500, most of whom were Scotch. Mulhall's work is a mine of information as to these activities.

[5] E. J. Pratt, p. 306, and L. H. Jenks, *Migration of British Capital,* p. 353, quote Parish as writing that at the end of 1823 half of the domestic debt of $2,500.000 and the best part of the most valuable property of the city were owned by British residents. There are

As the political stability of the government faltered, its financial condition weakened. Extraordinary expenditures were required to obtain from abroad military supplies used in resisting the Spanish armies moving from Peru. The greatest difficulties were experienced in collecting revenue. The complicated colonial taxing system had to a large extent been abandoned, and almost entire reliance had been placed on the customs duties, reduced during the early years of the war by blockades and always by smuggling, and in any event probably unequal to the strain. Fiscal need between 1810 and 1820, coupled with a complete inability to borrow, led to recourse to forced loans or levies on resident capitalists and merchants, imposed according to estimates of wealth.[6] In order to further ease the treasury, the prac-

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several excellent accounts of Buenos Aires in the early twenties, indicating the great interest of Englishmen in the Spanish colonies; Sir Woodbine Parish's *Buenos Ayres and the Provinces of the Rio de la Plata* is probably the best. The files of *The British Packet*, and of *El Argos*, give interesting sidelights of the period, although the former fell later into complete subjection to Rosas' wishes. Other writings by visiting Britishers are mentioned in succeeding notes.

[6] These fell heavily upon the Spanish inhabitants. Emilio Hansen in *La Moneda Argentina*, pp. 69-269, gives an extended account of the finances of this period. He gives a chronological list of the forced loans (pp. 255-258), estimating them at $2,964,000 for the period 1811-1822. In the funding of all outstanding claims on March 28, 1822, a total of $4,500,000 was recognized, indicating the extent of the forced loan. The English merchants were included as a matter of course, and in March, 1821, they protested against the unfair apportionment of a "loan," finally obtaining in consideration of larger advances, a longer term for the payment of customs duties. Hansen, p. 254. They were apparently taken into the confidence of the government, and must have regarded the levies as a regular business expense, a kind of fee for protection. By this means of raising money, and by accepting the military services of adventurers, all of the South American republics became indebted to British subjects, some of whom were later instrumental in raising loans for these governments, in order that their claims could be paid.

tice developed of paying provincial debts in treasury notes, either interest bearing or not, acceptable in payment of a stated percentage of customs duties. These notes were never made legal tender; but their circulation at various discounts was encouraged by the increasing scarcity of gold and silver coins, the only other money in use. They were issued in excess and depreciated to half their face value, but they helped to relieve the provincial finances. In reality nothing else than a disguised issue of paper money, they were perhaps less objectionable than the indefinite promises to pay which had hitherto been utilized.

An increasing scarcity of gold and silver implies either an increase of hoarding or a continued unfavorable balance of trade. Undoubtedly hoarding was customary, especially by the Spaniards. To display wealth was merely to present oneself as a candidate for the next forced loan. It is impossible to estimate the volume of foreign commerce quantitatively, for contemporary statistics are of the rudest sort or non-existent.[7] In general, the Argentine was a poor country, whose chief wealth consisted of the hordes of wild cattle roaming its pampas, and exported in the form of hides and dried salted beef.[8] Tallow, horse hides, horse hair, horns,

[7] The following general description is based on Sir Woodbine Parish's work. Parish was the first British consul to Buenos Aires. According to his figures hides made up to two-thirds of the commodity exports, which were valued in 1822 at 3,641,186 Spanish dollars, and by 1837 had grown only to 5,000,000 Spanish dollars. Nearly a million and a half Spanish dollars were exported annually from 1822 to 1825. In the latter year more than half of the imports came from Great Britain, and approximately 12 per cent each from Brazil and the United States.

[8] Control of export, as well as import, trade was in the hands of British residents. V. F. Lopez in his valuable study *El Banco . . . . y sus Trasformaciones Históricas*, pp. 9-10, describes the hide trade,

chinchilla and nutria skins and a small amount of inferior wool complete the list of products, and indicate the primitive nature of the economy.[9] According to contemporary accounts gold formed about one-fourth the total value of the exports in the early twenties. Since it was not produced in the country and could not be imported from Peru because of the war, its increasing scarcity was inevitable. There was a great demand for war materials and manufactured goods from England and the United States, and for wines and silks from France and Spain. It is impossible to determine whether the unfavorable balance resulted from the turbulence within the country and the consequent disorganization of production or simply from the exercise of opportunity to acquire freely a variety of manufactured products after centuries of restriction.[10]

As early as 1811 a proposal had been made to establish a bank to help the state treasury.[11] Reference was made to the circumstances attending the creation of the

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the most important of the exports. Native dealers gathered the hides of cattle used to supply meat for local consumption or for salted beef, and delivered them to the English houses, who paid in current account, since the hide collectors were also the wholesalers of imported products. The simplicity of the arrangement for the foreign traders, among whom Mackinlay, Fair, Best, Brittain, Dickson, Zimmerman, Duguid and Miller are mentioned, was admirable.

[9] Parish, p. 353.

[10] The latter is probably nearer the truth, because even during the peaceful years 1822-1824, gold was exported, in spite of a large production and importation of foreign capital. The loss of gold itself was one argument advanced favoring the enactment of a law authorizing a foreign loan in 1822. De Vedia, p. 103. Finance Minister Garcia, early in 1826 computed that the annual imports amounted to twelve million pesos, exports to seven and one-half million, imported capital two million and gold exports two and one-half million. Quoted in De Vedia, p. 210. The balance certainly became more unfavorable in times of war and panic in London.

[11] De Vedia, *op. cit.*, p. 10.

Bank of England and the Bank of France. The project came to nothing. Another curious attempt to meet fiscal necessities was the Caja Nacional de Fondos de Sud-América, founded in 1818, and designed as a permanent state bank whose deposits were to be used by the government in meeting its expenses.[12] The terms were fantastic; withdrawals could be made only by mutual consent of the government and the depositor; deposits received 8, 12 and 15 per cent per annum interest respectively for ordinary government notes, these notes being receivable for customs, and for gold or silver coins. Although provision was made to raise 3,000,000 pesos capital in Europe, no investors could be found, and the institution was such a complete failure that when suppressed in 1821 only 7000 silver pesos, or Spanish dollars, had been deposited.

### IV. EXPANSION OF THE LONDON MONEY MARKET

The London money market received a tremendous stimulus during the Napoleonic wars. The great demands made upon it by the British treasury, and its ability to respond to these marked the real beginning of international ascendancy. Between 1793 and 1815 the national debt increased £475,000,000 to a total of £800,000,000; up to 1801, £12,600,000 had been advanced to continental allies as subsidies.[13] The business of the brokers had so increased that 'Change Alley was replaced in 1801 by a private building. Continental capitalists, alarmed at the advance of Napoleon, migrated to London, bringing their resources and the prestige of continental connections with them. By raising and

[12] *Ibid.*, p. 27.

[13] John Francis, *Chronicles and Characters of the Stock Exchange*, pp. 65-66.

remitting money abroad the bankers won political recognition and social position. Business in the funds was the foundation of exchange activity; contacts between capitalist and stock broker were established and an investing class grew rapidly.

After the peace of 1815 and the end of further consol issues the capital market utilized its surplus in loans to foreign states.[14] The French indemnity was partly raised in London, while Russia and Austria satisfied their fiscal exigencies in a similar fashion. In 1818 Nathan Meyer Rothschild offered an unguaranteed Prussian loan whose service was payable in sterling, obviating the risk of exchange fluctuations.[15] By 1822 interest had become so widespread in foreign stocks that a separate exchange was opened. In the succeeding four years the bubble swelled and burst. Buenos Aires, like the other Spanish American states, was involved in the crash, and was one of the slowest to recover.

## V. THE LONDON LOAN

In 1821 began a period of tranquillity and recovery in Argentina, developing into prosperity in 1824, and ending two years later in war and financial confusion. Dissolution of the national union had left Buenos Aires once more independent and temporarily free from the threat of civil war. Public opinion in England was demanding recognition of the South American States.[16] In 1823 Canning sent consuls to several of the former

[14] L. H. Jenks, pp. 5-24, gives an excellent account of the development of the London money market.

[15] Francis, p. 110; Jenks, p. 38.

[16] The London Petition for Recognition of the Independence of South America, one of a number presented to Parliament in 1824, was signed by Ricardo and by Baring. Cf. Hansard, *Parliamentary Debates*, June 15, 1824, Second Series, II, 1344.

Spanish colonies, among them Sir Woodbine Parish to Buenos Aires, thus extending virtual recognition.

At the same time the provincial government, among whose leaders Garcia and Rivadavia were most prominent, displayed liberal and progressive tendencies. Levies on the merchant class were abandoned, customs duties were lowered in an effort to discourage smuggling, and an attempt was made to deal with the expenses arising from ten years of intermittent warfare. In 1821 commissioners were appointed to liquidate all claims against the government, most of which were for forced loans or for military services. A 6 per cent bond issue was created to extinguish revolutionary claims, while for those originating in obligations of the colonial government, 4 per cent bonds were issued, with service beginning on January 1, 1822. It was this policy which moved J. M. Forbes, the United States agent in Buenos Aires, to say in his 1821 report:

> In the meantime, Rivadavia and Garcia, firm, as they are enlightened and patriotic, are pursuing the even tenor of their way. They have added publick credit to the other sinews of war which this province possessed by paying with great punctuality, in gold, several loans (a thing without example in the history of this revolution); they enjoy now to so great a degree the confidence of the community, that I believe they could borrow, to any reasonable amount, for an immediate exigency.[17]

Among the projects sponsored by this government was that of a bank, an institution directly connected with foreign borrowing, and destined to play an important rôle in Argentine history. Leading merchants, among whom Englishmen were most prominent, offered to buy the stock of the new enterprise, and easily obtained from the legislature a charter extremely generous in its provisions and conceding, among other

[17] *British and Foreign State Papers*, 1821, p. 388, J. M. Forbes to J. Q. Adams, United States Secretary of State.

privileges, a twenty years' monopoly.[18] Garcia declared that the bank would remedy the shortage of money, caused by the stoppage of gold imports from Peru,[19] that the interest rate would be reduced, and that the bank would prove a stimulant to industry. Although failing to obtain the proposed capital of 1,000,000 pesos, the bank opened in August, 1822, and was successful for three years. The inflow of foreign capital must have helped it at this time; most of its shares soon passed into the hands of non-resident English capitalists,[20] and investments were made by merchants, mining companies, and immigration companies.

Buenos Aires had already, like the other political bodies of South America, contemplated the issue of a loan in London. Laws authorizing a loan of 5,000,000 pesos, or £1,000,000, with 6 per cent interest and at a minimum price of 70 were passed in 1822.[21] The funds were to be spent for port works, a water system, and a fortified southern boundary, all of which were desirable objects. The mouth of the River Plate

[18] The capital was set at 1,000,000 pesos. Notes were to be redeemable on demand, and the shareholders had no additional liability. The best account of the bank is given by De Vedia. V. F. Lopez also gives an excellent presentation. Briefer treatments are numerous, especially Garrigos, *El Banco de la Provincia;* Hansen, *La Moneda Argentina;* Agote, *El Crédito Público Nacional;* J. Pillado, *El Papel Moneda Argentino;* N. Piñero, *La Moneda, el Crédito y los Bancos en la Argentina;* and Rebora, *Las Finanzas de Buenos Aires.* The London *Times* sometimes gives particulars, its reports being based, apparently, upon the contents of the English newspapers in Buenos Aires, *El Argos* and *The British Packet.*

[19] De Vedia, pp. 58, 59.

[20] *Ibid.,* p. 133. De Vedia states that a commission of stockholders in 1826 represented only twenty-five shares out of a thousand, most of the rest being held in London. Probably such holdings were encouraged by the success of foreign investments in the First Bank of the United States.

[21] J. B. Peña, *Deuda Argentina,* I, 380, 381.

was so shallow that boats of fifteen-foot draft could not reach the city.[22] There were no dock facilities, both passengers and freight being landed in high-wheeled carts with considerable trouble and expense. The city, whose population was nearly fifty thousand, had as a water supply only that hawked about by carriers, in spite of the proximity of the fresh river water. But a more significant, if unavowed, purpose of the loan might be conjectured from the political situation of the country. The Province of Buenos Aires still hoped to unite with the other parts of the old Viceroyalty of La Plata into a single nation under its own leadership, a plan which would have been facilitated by the possession of strong financial reserves.

The government waited until 1824 before using its authorization to borrow. At that time the return of financial difficulties, a propitious market, and the development of opinion favoring another attempt to nationalize the provinces, all encouraged action. Early in 1824 a group of capitalists and merchants of Buenos Aires agreed to undertake the negotiation of the loan, advancing 250,000 pesos at 8 per cent interest, to be repaid from its proceeds. Felix Castro and John Parish Robertson, the latter a prominent British merchant, left for London where the loan was placed in July, 1824, with Baring Brothers at 70 per cent, the minimum legal price. Moreover, from this amount 6 per cent interest and ½ per cent amortization for two years was deducted, leaving £570,000 to be advanced to Argentina, in return for the £1,000,000 face value. Scrip,

[22] The following description is largely based on Parish's work, and upon Beaumont, *Travels in Buenos Ayres;* Captain F. B. Head, *Trip across the Pampas and the Andes;* and Nuñez, *An Account Historical, Political and Statistical of the United Provinces of the Rio de la Plata.*

issued temporarily in lieu of bonds, was sold to the public at 85 per cent, a spread of fifteen points, and the quotation soon rose above the issue price, remaining there for over two years.

This connection with Baring has been maintained until the present day, although not without intervals of separation. To have bonds offered by the leading banking house of London, and to be the first South American country so sponsored, lent prestige to the issue, in the midst of many flimsy proposals. The spread of fifteen points indicates, however, that there was little philanthropy on the banker's part.

## VI. DEFAULT

The net proceeds of the loan were forwarded in monthly installments to Buenos Aires, where an economic commission headed by the finance minister was set up to consider proposals and contracts for the projected public works.[23] Barings' had made the advances largely in drafts on themselves, and only a small part in gold; rather than hold the money in this unproductive state it was lent at $\frac{3}{4}$ per cent per month.[24] In his opening message to the legislature on May 19, 1825, the executive referred to the loan funds in these ominous terms:

> The proceeds of the loan which was raised in London have been remitted hither advantageously and without causing any alteration in exchange. The government expects that the works of the port, for which the loan was especially intended, will be undertaken by private companies, with their own capital, enabling it, consequently, to apply the loan to other objects.

[23] De Vedia, p. 109.

[24] *Ibid.*, p. 109. Jorge Pillado in a modern account of the loan, found in *La Prensa*, February 4, 1927, says merchants bought the drafts with coin and government bonds.

Although certain mushroom companies had offered to undertake the port works, the government was obviously delaying for other reasons.

In the meantime the Bank of Discounts, influenced by speculative fever that was by no means confined to London, had gotten into a dangerous position by over-expanding its loans and issues. By February, 1825, it had emitted 1,698,000 in notes, against which it held a specie reserve of 285,267 pesos.[25] Its capital was largely fictitious, since the money to buy the stock was loaned to more than half of the shareholders.[26] In 1825, an insurrection in Uruguay, fomented by Buenos Aires, threatened to bring about war, and occasioned a mild crisis, which was somewhat relieved by the discount of the funds of the London loan. The provincial government, controlled by the Unitarian or Nationalist party, forced the bank to give up its privileges and to reorganize as a national bank, even before the union was formed. The government supplied the 3,000,000 pesos raised by the loan as capital for the bank. This advance consisted mostly of government notes and early in 1826 a régime of inconvertibility had begun.[27] War with Brazil was declared on January 1, 1826, and lasted until September 30, 1828. During most of this period Buenos Aires was blockaded, and resort was had to increasing issues of paper money to finance the government.[28] To make matters worse, civil war broke out when the provinces of the interior refused to join the union, and these internal disorders lasted much longer than the external struggle. The gold ounce, worth sev-

[25] De Vedia, p. 188.

[26] *Ibid.*, p. 71.

[27] *Ibid.*, p. 190. Of the three millions subscribed, only 19,829 pesos were in gold.

[28] By August, 1828, the circulation had reached 10,000,000 pesos.

enteen Spanish dollars, or seventeen pesos at par, rose to seventy pesos in October, 1827.[29]

Late in 1825, recognizing the imminence of a crisis, the province had authorized another loan for 15,000,000 pesos face value, to yield 9,000,000 or 10,000,000.[30] When the instructions arrived, the market was in the midst of a crisis, and investors were especially wary of foreign securities. The loan was offered to Hullet and Company, who had been associated with Rivadavia in raising mining capital.[31] Baring Brothers were greatly offended at the slight, while the house of Hullet, which was one of moderate powers, was unable even to consider the affair in a market from which Rothschild had been compelled to withdraw an announced Austrian loan.

The Brazilian War was financed almost entirely by paper money. Even the London loan, which had been added to the capital of the bank, had previously been expended in the purchase of war materials. This was the final destination of the money that was intended to accomplish such marvelous improvements in Buenos Aires. The government notes turned over to the bank in exchange for its stock merely represented a formality; they contributed nothing to the bank's ability to

[29] P. Agote, *El Crédito Público Nacional,* IV, 378; hereafter cited as Agote.

[30] Garrigos, *El Banco de la Provincia,* p. 64; De Vedia, p. 233. The bank had actually obtained an advance of £300,000 from Baring, in August, 1826, for fifteen months, expecting to repay it from the proceeds of the loan. Hope was not abandoned for another loan until the middle of 1827, and this provided the chief stimulus for serving the debt of 1824 through that difficult period.

[31] Hullet and Company was not a banking and brokerage house, but was engaged in foreign trade. They had acted as agents for Buenos Aires, and had been appointed as consul for that government; but Canning refused to honor their appointment because of their connection with a mining company.

expand its note issue without depreciation. It was primarily the monopoly of paper money issue, in the form which had already been widely accepted, that was desired by the government when it acquired the bank.

Such commercial and monetary confusion attended the war, in itself exceedingly unpopular, that Rivadavia was forced to resign, and the Unitarians lost their political supremacy to the Federalists. The latter party, after pursuing the war for a short time, consented to Uruguayan independence as the price of peace. For a time the Federalists were successful in the attempt to establish financial equilibrium, and to reduce the excessive circulation of bank notes; but their efforts were doomed to failure by the political instability of a country which could neither exist divided nor devise a suitable form of union.[32]

Service on the London loan was maintained during 1827, in spite of rising exchange rates and increasing internal difficulties. But the coupon of January 12, 1828, was not met, it being alleged that one-third of the national revenues could not be spared from war requirements.

Loans made to other Latin American States in the early twenties had been similarly squandered, and had left a trail of defaults—Chile and Colombia in 1826, Mexico and Peru in 1827, Buenos Aires and Guatemala in 1828. Even after the crash some of the creditors were optimistic; Baring, for instance, wrote to the Buenos Aires government that the difficulties were transient. Other comment was not so mild. In the London *Times* of January 9, 1828, the financial editor stated

the dividends on Buenos Aires stock, due on the 12th instant, will not be paid. Thus the whole of the new American states, once Spanish

[32] For some months after the peace of 1828 the price of gold declined, to a low of 39⅛ pesos per gold ounce in October, 1928, but by January, 1930, it had risen to 104 pesos. Agote, IV, 378.

colonies, which have raised loans in England, have become bankrupt (except Guatemala for 150,000 pounds). That government (Buenos Aires) is unable to ship specie due to a blockade, and exchange was so unfavorable, that had the alternative of remitting bills been resorted to the government would have had to raise four dollars for every one paid to the English creditor. . . . . But the war is wasting the resources of the country. They rely on another British loan, which they will never get.

### VII. OTHER FOREIGN CAPITAL, 1820-1829

Additional discredit was heaped upon the Buenos Aires government because of the losses experienced by British capitalists in other enterprises. Most prominent was the Rio de la Plata Mining Association. In 1824, before becoming president of the short lived national union, Rivadavia had visited London with no other apparent purpose than to interest capital in working Argentine mines, the richest of which were located in the Province of La Rioja, in the Andes.[33] He was equipped with an authorization from the Buenos Aires government to organize a stock company for the purpose, subject to the approval of the La Riojan government—which meant that he had no privileges at all, but went merely as a promoter. A stock company was nevertheless formed, with the aid of Hullet, a London mercantile firm.[34] London was in a fever of speculation late in 1824, and the idea of applying machinery to the famed mines of South America was a favorite bubble. The company quickly sent out a group of miners under Captain Francis B. Head, but by the time the expedition arrived another company had been formed in Argentina to work the Famatina and had received an exclusive right from La Rioja. Head visited other mines

[33] The Famatina mine.

[34] Baring Brothers would have nothing to do with mining company promotion, which they regarded as speculative if not fraudulent.

of the country, but found them too poor and distant to be profitably worked, and his experiences with the government were discouraging.[35] Returning to London in 1827, after Rivadavia had attained the presidency, Head had difficulty in dissuading the shareholders from embarking more capital in the enterprise, and he was even sued for losing the company's capital. Later on, the shareholders became convinced of his integrity and in turn sued the Buenos Aires government for losses amounting to £52,520.[36]

The government appointed a committee for the purpose of encouraging immigration, and agents were sent to Europe to advertise the country to prospective settlers. Passage reimbursement up to a hundred pesos per individual was to be paid on arrival, and elaborate provisions were made for newcomers to acquire land. In 1825, after special guarantees extended by agents in London, the Rio de la Plata Agricultural Association was formed, with a capital of one million pounds. Settlers were sent out, but the government refused to provide either refund for passage or free land, and the Agricultural Association failed.[37]

[35] Rivadavia became president of the company, receiving £1200 per annum; he was suspected of graft by Head.

[36] Head left a record of the enterprise in his *Reports Relating to the Failure of the Rio de la Plata Mining Association*. It is also mentioned in his *Trip Across the Pampas;* in De Vedia, *El Banco Nacional,* pp. 74-77; in the governor's message of September 14, 1827, and in an anonymous pamphlet published in reply by the Unitarian Party in the same year. Rivadavia attempted to acquire mining privileges in La Rioja for his own company, and the ensuing political struggle was a factor contributing to the collapse of the national union.

[37] Based on J. A. B. Beaumont, *Travels in Buenos Ayres;* compare Nuñez, *An Account Historical, Political and Statistical of the United Provinces of the Rio de la Plata.*

An account by a contemporary visitor, Beaumont, who went out in charge of a group of immigrants, gives some idea of the speculation rampant in Buenos Aires:

> It appears that the rage for joint-stock companies has been even stronger in Buenos Ayres than it was in England, the relative population and wealth of the two countries being considered. Mr. Jones describes a company at Buenos Ayres, which commenced a settlement in the Entre Rios province, just when the Rio de la Plata Agricultural Association was formed and which, after expending 15,000 pounds on the project, was driven out by the natives of the province. Then there was an association for bringing over milk-maids from Scotland; but the lasses soon made associations for themselves to the prejudice of the original company; then a building society—a company of pilots—and a vast many other projects, for deepening rivers, and making canals and harbours, every one of which, I believe, failed with great loss to the adventurers.[38]

## VIII. SETTLEMENT OF THE DEBT

From 1830 to 1852 the Argentine was ruled by the iron hand of Juan Manuel de Rosas, the most famous character in the nation's history. During his régime there was little economic progress, both the volume and nature of production remaining substantially unaltered. Neither was there recovery in provincial finances. Rosas, engaging continually either in civil or foreign wars, exhausted whatever credit the state enjoyed, and turned to the printing press as his predecessors had done. The French blockade of 1838, caused by the impressment of French citizens into the Buenos Aires army, led to an emission of nearly 30,000,000 pesos, and sent the quotation of the gold ounce to 514-6/8 paper pesos in July, 1840.[39] Rosas agreed to an indemnity and the blockade was lifted; but in 1845 Great Britain and France, incensed at his closing of the

[38] Beaumont, p. 131.

[39] Agote, IV, 378; De Vedia, p. 472.

Paraná River to foreign trade, and at Rosas' activities in Uruguay and the treatment of their nationals, again imposed a blockade, which was not raised until July, 1847.[40] During the two years, in the almost complete absence of other revenues, emissions totalling some 30,000,000 pesos were again used to sustain the provincial government. Rosas was finally overthrown in 1852 by Urquiza, one of his own lieutenants, aided by Dom Pedro, Emperor of Brazil.[41] In the meantime, Baring had sent in 1842 an agent to arrange for settlement of the debt, and Rosas offered to cede the Malvina Islands, seized by the British ten years before, in settlement.

In 1844, along with British and French indemnities, the dictator agreed to pay 5000 silver pesos monthly from May 1, 1844, until a final arrangement was made.[42] This was only one-fifth of the interest charge, but the bondholders accepted the arrangement. During the Franco-British blockade the payment was suspended; but it was resumed in 1848 and paid thereafter until 1857, when a permanent settlement was reached.[43] Rosas was probably merely bidding for English sympathy against the French in his early handling of these payments.[44]

After the fall of Rosas, efforts to reach an agreement with the province were redoubled. In 1854 the finance minister proposed capitalization of one-half the overdue

[40] *British and Foreign State Papers,* 1845-1846, p. 1266; and 1848-1849, p. 7.

[41] Agote, I, 17, 18.

[42] Peña, *Deuda Argentina,* I, 384.

[43] Baring received this money and paid occasional dividends on the debt. Parish, p. 377. The bonds showed in their occasional quotations, very high prices, rising to 50 per cent in 1845, 59 per cent in 1850, and 78 per cent in 1852, while interest was not being paid. They reached 96 in January, 1860. Agote, IV, 98, 99.

[44] J. B. Alberdi, *Obras Completas,* V, 423.

interest, which then amounted to a million and a half pounds, in 6 per cent bonds, and the cancellation of all other claims, including the principal of the debt. This proposal was rejected. The bondholders' agent insisted that the basis of any agreement should be the Chilian settlement of 1844, by which the original debt had been served in full, and the overdue interest funded in 3 per cent bonds.[45] In 1856 the 5000 peso monthly payment was doubled, and the province was in so strong a position that service of the original debt would have amounted to only one-tenth of its revenues.[46] By a convention signed in 1857 the province agreed to terms substantially the same as the Chilian agreement. Provision was made for full service of the principal beginning in 1861, and for recognition in full of the overdue interest. One per cent was to be paid from 1861 to 1865, 2 per cent for the next five years, and 3 per cent thereafter.[47] In spite of subsequent political unrest, Buenos Aires was able to carry out its promises faithfully until the debt passed into the charge of the national government in 1866.

## IX. LOANS OF 1866-1868

A federal union was again formed in 1861, without definitely solving many of the controversial issues between Buenos Aires and the other provinces. No great confidence was placed by foreigners in the permanence of the union. Customs duties were nationalized, in return for which a guarantee was extended to provincial finances. No decision was reached as to the selection and status of a capital city.

The Paraguayan War of 1865-1870 diverted attention for a time from internal political problems, and

[45] Fortune, *Epitome of the Stocks and Public Funds*, pp. 244-248.
[46] *Régistro Estadístico de Buenos Aires*, II, 97.
[47] Agote, I, 23; Peña, I, 386-387.

was responsible for the first appearance of the Argentine Republic in the London money market. Anticipating the need of additional funds with which to carry on the struggle, the new state sent Norberto Riestra, who had arranged the settlement of the Buenos Aires loan, to London to borrow 12,000,000 pesos, or £2,500,000.[48] From the first the loan was a failure. Because of the strained condition of the market after a period of intense speculation,[49] Baring reduced the offering, made January 3, 1866, to £1,250,000, one-half of the authorized amount. On the next day the Bank of England raised its discount rate to 8 per cent, so that money could be obtained only with the greatest difficulty, and the issue price of 75 per cent for 6 per cent Argentine bonds was unattractive.[50] After a week only £500,000 was subscribed. Over £200,000 of the bonds had to be repurchased to keep the market price above the issue price; and when the subscriptions were closed only £518,000 had been taken.

Besides the unfavorable condition of the money market, the lack of knowledge of and confidence in the Argentine Republic, as distinct from Buenos Aires, led to the failure of the attempt. Bonds of the Provincial Loan of 1824 remained above 80 during the new flotation, and until 1875 the provincial bonds generally maintained higher quotations than the national bonds.[51] To increase its credit, the national government assumed service of the Provincial Loan in 1866.[52] The unissued part of the loan, £1,982,000, was offered in 1868 at a

[48] He obtained a £200,000 advance from Baring on August 7, 1865. *Memoria de Hacienda,* 1865, p. cx.

[49] It was payable in London and Amsterdam, a provision characteristic of many later nineteenth century loans.

[50] *Memoria de Hacienda,* 1868, Anexo B.

[51] Agote, IV, 99, 100.

[52] *Memoria de Hacienda,* 1867, p. xxv.

price of 72½, with an accumulative sinking fund of 2½ per cent, to be applied to drawings at par. The earlier bonds had only a 1 per cent sinking fund, so that they were exchanged for new ones, and the 2½ per cent difference in the purchase price was returned to the original subscribers. On both of these occasions delayed payments were permitted, spread over nine months, reducing the real issue price. The net yield to the government of the entire loan was estimated at 69½.[53] Even at this price the offering was no great success, and the government promised to issue no other loan within two years.[54] The Buenos Aires bonds remained about ten points above the national issue, indicating that the investors feared a possible dissolution of the union, and the possible repudiation of the debt by the province. There were various movements launched by disgruntled politicians to remove the capital from Buenos Aires, which made investors fearful that the old sectional strife would reappear. A war loan, moreover, could never obtain as favorable terms as one at least ostensibly productive.

At this time the Argentine bond market was narrow, and in an effort to broaden it, resort was had to publicity. A one-time consul-general in London records that Argentina and Brazil subsidized one periodical, and that another, the *Money Market Review*, had always been friendly.[55] The latter was issued bi-weekly in London, and remained devoted to the interests of more or less speculative securities until 1890. In its record of financial events there was a constant stream

[53] Agote, I, 27.

[54] *Memoria de Hacienda*, 1868, p. 129.

[55] De Guerrico, *Finanzas Argentinas*, p. 77. This official wanted to establish a purely Argentine journal in London; but the funds were not forthcoming.

of correspondence relating to Argentina, some certainly written by a government agent.

Perhaps the most obvious flaw in the loan of 1868 lay in the high rate of amortization provided, 2½ per cent annually, and in the provision to redeem the bonds by drawings at par. Heavy amortization simply made the money less useful and probably had no effect on price; while drawings at par, unless the market price exceeded par, were needlessly expensive, and failed to raise the market price correspondingly.

### X. PUBLIC WORKS LOAN OF 1871

After the close of the Paraguayan War, the Argentine turned attention to the development of its natural wealth. The first step was railroad construction. The first railroad line, the Buenos Aires Western, had been opened in 1857, and by 1870 the Great Southern of Buenos Aires, the Northern of Buenos Aires, and the Central Argentina had been projected under government guarantee. Less than a thousand kilometers of road were in actual operation, and extensions were obviously needed, for which encouragement must come from public authority. A national loan was authorized in 1870 for 30,000,000 gold pesos or £6,122,400, to be used for railways and to repay the national debt to the Bank of the Province of Buenos Aires incurred during the Paraguayan War. The 6 per cent bonds were offered by Murrieta and Company, a strong London investment house, on April 3, 1871, at a price of 88½. Allowing interest on deferred payments, the net price to the investor was $87\frac{3}{20}$ per cent, to yield about 7¾ per cent.[56] The loan was secured by a tax of 5 per cent on imports and 20 per cent on exports, the first such specific guarantee given by Argentina. The

[56] *Money Market Review*, 1871, I, 345.

bonds were to be redeemed by drawings at par.[57] There was a disagreement between the agent in London, Mariano Varela, and the finance minister, as a result of which most of the bonds were withdrawn from sale after subscriptions had been opened. They were subsequently sold year by year as the need for funds arose, at the best terms obtainable.[58]

In 1871 the money market was strong, and it is probable that the entire £6,000,000 could have been sold; but subscriptions for only £2,222,400 were accepted. Over £1,100,000 of the bonds were transferred directly to the railroad contractors, who accepted them at 95, in turn offering them to the public through various bankers, so that at least four different houses sold them.[59] Bond prices rose with the optimism of investors after 1871, permitting subsequent issues at above 88½, which excess was divided equally between the bank and the government.[60] The bonds might have gone to par had there not been internal political unrest, and even threats of war with Brazil. The average price of issue was 89.475, which, less expenses, netted the government 86.458.

Besides these external obligations, the national government had sold internal gold bonds in large blocks to bankers who subsequently offered them in London. As early as 1864 Baring had been asked to obtain a quotation on the London Stock Exchange for Argentine internal bonds.[61] In 1870, 6,000,000 pesos of 6 per cent

[57] Agote, I, 27.

[58] *Memoria de Hacienda,* 1872, p. xl and following.

[59] Agote, I, 27-30. Murrieta, Baring, Torrome and Vega were the bankers, according to Agote.

[60] *Memoria de Hacienda,* 1872, p. xl and following. Large blocks of the loan were sold as late as 1880.

[61] *Memoria de Hacienda,* 1864, p. cx. It was planned to issue 4,000,000 pesos.

internal bonds were sold to Wanklyn and Company, in Buenos Aires, a branch of the London firm, at 70, with the proviso that any excess obtained over this price beyond 5 per cent expenses would be shared equally by the bankers and the government.[62] The issue was made in London by the same house in February, 1872, to the amount of £1,225,000 at a price of 76, which, less a discount for cash, netted 74½ per cent.[63] At the time, the gold peso was above par on the pound, and since the bonds were to be served in specie, there was no obvious disadvantage. Coupons could at first be collected by banks with correspondents in Buenos Aires; after 1874 service was made in London, a quotation on the Stock Exchange having been obtained in the same year.[64] An additional issue of $1,752,000 of these so called "hard-dollar" bonds was made in 1874.[65] The fact that the issue was internal, and therefore subject to modification as to terms of contract, later operated to the disadvantage of holders. After 1877 the service was no longer made in gold and the market price adjusted itself to the declining peso quotation.[66] Funds acquired by the sale of these bonds were used to pay part of the expenses of the Paraguayan War.

One other internal loan floated during this period came into prominence in London before being extinguished: an issue of 6,000,000 gold pesos of 9 per cent treasury notes of 1876, with 4 per cent annual amortization, intended to tide the government over an interval of extreme difficulty. Although the national credit was

[62] Peña, *Deuda Argentina,* II, 744.

[63] *Money Market Review,* 1872, I, 32.

[64] *Memoria de Hacienda,* 1874, Anexo C, p. 4.

[65] *Money Market Review,* 1877, I, 224. The term "hard-dollar" was borrowed from the Spanish "peso fuerte," used to distinguish the gold from the paper peso.

[66] *Money Market Review,* 1877, I, 123.

so low at the time of issue that they brought only about 75, in 1881 they reached a quotation of 122.[67] The government showed unwillingness to redeem the notes by purchase in the market, and insisted upon its right to call at par, which was disputed by British holders. The loan act provided for amortization "por licitacion" which had previously meant by tender in the market.[68] After 1882, in spite of protests, the government conducted drawings for purchase at par; nor were the bondholders able to prevent subsequent loans from obtaining a quotation on the stock exchange. Both of these internal loans exercised an extremely unfavorable influence upon Argentine credit in London, because of their high yields and the disputes to which they gave rise.

The manner of issuing the "hard-dollar" bonds in small but continuing sales, depressed the value of the other securities and gave a bad tone to the market. Governmental borrowing policies were particularly unfortunate during this period, in that two bankers were permitted to sell simultaneously widely different types of obligations, to the detriment of each. Sinking funds of 2½ per cent on both 1868 and 1871 loans were too heavy, and it was a distinct error to provide for drawings at par. Chilian and Brazilian credit were much more highly regarded than Argentine, both because their debts were smaller in proportion to their wealth, and because they had been issued in more careful form.[69]

[67] Agote, IV, 108.

[68] Peña, *Deuda Argentina*, II, 773. Nothing was said of drawings at par.

[69] According to Mulhall, *English in South America*, pp. 529-532, Argentine debts amounted to £13,000,000 as compared with £19,000,000 for Brazil and £7,500,000 for Chile. Both of the latter had 5 per cent bonds selling near par in 1880.

In the meantime two foreign loans had been contracted by the Province of Buenos Aires, one by Santa Fé Province and another by the Province of Entre Rios. The last two were for small amounts; Entre Rios borrowed £226,800 in January, 1872, on 7 per cent bonds at a price of 88⅞ in a good market,[70] and Santa Fé, the second richest of the Argentine Provinces, obtained 92 for £300,000 of 7 per cents in February, 1874. This had taken place after a crisis in Latin American securities, and at a time when Ecuador, Honduras, Mexico and Santo Domingo were already in default.[71] The loans were patterned after the national issues, and carried 2½ per cent sinking funds. The first Province of Buenos Aires Loan was sold in June, 1870, by Murrieta, at 88 for £1,034,700 in 6 per cent stock;[72] the second was offered in December, 1873, by Baring, just after the panic, at 89½ less a 5 per cent discount for cash, to the amount of £2,040,800. The proceeds were to be used for drainage, paving and waterworks in the city of Buenos Aires.[73] Both of these loans finally came under the charge of the national government.

## XI. CRISIS OF 1875

As the first half of the decade of the seventies was marked by progress and prosperity, the second half was marked by stagnation and recession. Prices of Argentine wool and hides declined, the era of grain exports had not yet arrived, no foreign loans were contracted, and capital came more slowly in private

[70] *Money Market Review,* 1872, I, 108.

[71] *Ibid.,* 1874, I, 200.

[72] *Ibid.,* 1870, II, 665. The conservative *Economist* warned British investors of the dangers of lending money to Buenos Aires. *Economist,* June 25, 1870.

[73] Agote, I, 43, 44; *Money Market Review,* 1873, II, 676.

ventures. Contrary to the experience of a developing country, the balance of trade was at times favorable, at least according to official trade figures.

FOREIGN TRADE OF ARGENTINA, 1864-1880 [74]

In millions of gold pesos

| Year | Imports | Exports | Year | Imports | Exports |
|---|---|---|---|---|---|
| 1864 | 23.1 | 22.4 | 1873 | 73.4 | 47.4 |
| 1865 | 30.3 | 26.1 | 1874 | 57.8 | 44.5 |
| 1866 | 37.4 | 26.7 | 1875 | 57.6 | 52.0 |
| 1867 | 38.8 | 33.2 | 1876 | 36.1 | 48.1 |
| 1868 | 42.4 | 29.7 | 1877 | 40.4 | 44.8 |
| 1869 | 41.2 | 32.4 | 1878 | 43.8 | 37.5 |
| 1870 | 49.1 | 30.2 | 1879 | 46.4 | 49.4 |
| 1871 | 45.6 | 27.0 | 1880 | 45.5 | 58.4 |
| 1872 | 61.6 | 47.3 | | | |

In 1876, with a favorable balance of trade, the Exchange Office, which had since 1867 maintained the notes of the Provincial Bank at a fixed rate of conversion of twenty-five paper to one gold, found its gold supplies exhausted, and suspended conversion.[75] It was believed that a chief cause of the crisis had been the Public Works Loan of 1871, whose thirty million gold pesos caused, or at least permitted, an inflation of bank notes and credit. Provincial issues amounted to half as much, and there was a large importation of private capital. By 1878 Mulhall reported three British gas companies in Buenos Aires, a water company, numerous foreign banks, land companies, meat factories, a telegraph line, and a hundred foreign mercantile firms.[76] He estimated that the total British capital invested in Argentina was £27,000,000 of which £13,000,000 was

[74] *Dirección General de Estadística*, Boletín No. 209, p. 5.

[75] Balbin, *La Crisis, 1873-1875*, pp. 1-11. The notes of the National Bank, established in 1872, became inconvertible at the same time.

[76] Mulhall, M. G., *The English in South America*.

in government loans, and £8,000,000 in railways.[77] The percentage of private investment in Argentina was much larger than in the other Latin-American countries, and it was this type that was most successful. Of all British capital in South America, amounting to £140,000,000, some £90,000,000 was represented by government loans, which earned only £2,200,000, and of which £50,000,000 was in default; while the £50,000,000 of direct investments yielded £13,110,000.[78] At this time only Argentina, Brazil and Chile were solvent, of all the Latin-American states.

The finances of the national government reflected the crisis. The accounts for the period provide a curious exhibit, as follows:

REVENUES AND EXPENDITURES OF THE ARGENTINA, 1864-1880 [79]

In millions of gold pesos

| Year | Revenues | Expenditures | Year | Revenues | Expenditures |
|---|---|---|---|---|---|
| 1864..... | 7.0 | 7.1 | 1873..... | 20.2 | 31.0 |
| 1865..... | 8.3 | 22.5 | 1874..... | 16.0 | 29.8 |
| 1866..... | 9.6 | 13.7 | 1875..... | 17.2 | 28.6 |
| 1867..... | 12.0 | 14.1 | 1876..... | 13.6 | 22.2 |
| 1868..... | 12.5 | 16.7 | 1877..... | 14.8 | 19.9 |
| 1869..... | 12.7 | 15.0 | 1878..... | 18.4 | 20.8 |
| 1870..... | 14.8 | 19.4 | 1879..... | 21.0 | 22.5 |
| 1871..... | 12.7 | 21.2 | 1880..... | 19.6 | 26.9 |
| 1872..... | 18.2 | 26.5 | | | |

The accumulated deficit was over a hundred million pesos, and the treasury was frequently hard pressed. In 1876 the national government was able to meet the coupon of September on its Public Works Loan only

[77] Mulhall regarded the sum spent for railways as extravagant (p. 497). The cost was nearly £8000 per mile, over unobstructed pampas.

[78] Mulhall, p. 532.

[79] *Dirección General de Estadística,* Boletín No. 209, p. 35.

by borrowing 15,000,000 pesos from the provincial bank, and by obtaining an advance from Murrieta in time to prevent default.[80] Excessive expenditures, at first for war, and later for public works, almost drove the government into bankruptcy. The situation improved after 1876, and the Argentine was not again in serious trouble. Its ability to survive this crisis contributed to sustain credit in the succeeding decade, until exaggerated ideas concerning its wealth finally led to disaster.

During the crisis Argentine bonds fell to unprecedented low levels, the Public Works Loan being quoted at 36½ in September, 1876.[81] De Guerrico accused the London newspapers of conspiring against the Argentine, for the purpose of speculating in its bonds. Certainly the criticism of the London *Times* was severe.[82] Whether there were actually "speculators for the fall" would be difficult to prove; but the rapid fluctuations in price suggest that market manipulation was being practiced.[83]

[80] *Money Market Review,* 1876, II, 232. Baring Brothers also made an advance of a million gold pesos in 1875. *Memoria de Hacienda,* 1876, p. 20.

[81] Agote, IV, 101.

[82] A. De Guerrico, *Finanzas Argentinas,* p. 70. De Guerrico was consul general in England.

[83] Argentine bonds fell fifteen points in one week, ending March 11, 1876, for no apparent reason. *Money Market Review,* 1876, II, p. 317. The editor of the *Economist* could not decide whether the rapid fluctuations in price were due to a very narrow market or to speculative activities. *Economist,* 1876, I, 348. In any event this journal did not join in the general attack on Argentine securities; and in 1876 de Murrieta issued a statement defending Argentine Securities. *Economist,* 1876, I, 312.

## CHAPTER II

### The Foreign Debt, 1880-1914

I. Survey of the Period. II. Earlier Expansion, 1880-1885. III. Later Expansion, 1885-1890. IV. Crisis and Settlement. V. Credit Since 1900.

#### I. SURVEY OF THE PERIOD

Since 1880 the importation of capital into Argentina has proceeded on a new and enlarged scale. It has been the prime factor in the transformation of the country from a simple pastoral community to a modern close-knit agricultural nation, well equipped with railroads, ports, power and production facilities.

National growth has alternated between expansion and contraction. From 1880 to 1890 development was rapid, and marked by speculation and haste. This was checked by the crisis of 1891, when the national government and its provinces defaulted on their foreign debts, and much of the privately invested capital was lost. A second ten year period beginning with 1891 was largely one of reconstruction and adjustment. Temporary relief from the service of the foreign debt enabled the government to husband its resources so that it was able to assume responsibility for provincial obligations at something below face value, in addition to caring for its own debts. By 1901 complete service had been resumed on the foreign debt, and the national credit was on a firmer basis than ever. After 1900 investments of foreign capital were resumed; more miles of railways were built between 1900-1910 than in any other decade, and without the government as inter-

mediary. Loans were issued for refunding and for public works; but an essentially conservative policy was pursued, and the national credit was never endangered.

## II. EARLIER EXPANSION, 1880-1885

Most of the foreign capital in Argentina in 1890 had entered during the preceding decade. Finance Minister Hansen estimated that in 1891 all foreign investments amounted to 836,804,000 gold pesos; of which 373,-600,000 pesos were placed in government loans; 312,-500,000 pesos in private railway companies; 49,700,000 pesos in packing plants, sugar refineries, banks, tramways, telephone and gas companies; and 86,000,000 pesos in bonds of the national and provincial mortgage banks.[1] Mulhall, the British statistician and owner of the *Buenos Aires Standard*, estimated that in 1878 British capital in Argentina amounted to about £27,-000,000, or 135,000,000 gold pesos, of which £10,500,000 was in railroads, and nearly £13,000,000 in government loans.[2] French and German investments were negligible, and these figures may with tolerable accuracy be taken to represent all foreign capital. It would be safe to say that three-quarters of the foreign investments existing in 1890 were made between 1880 and 1890, and that nearly half of them came in the shape of either national, provincial, or municipal loans.[3]

[1] *Memoria de Hacienda*, 1891; also *Exposición sobre el Estado Económico y Financiero de la República Argentina*, p. 149.

[2] Mulhall, *The English in South America*, p. 529.

[3] Professor John H. Williams, in his *Argentine International Trade under Inconvertible Paper Money*, has reviewed the subject very thoroughly. The finance reports of the Argentine government, the *Memorias de Hacienda*, contain a wealth of information which must be the prime source for studies in this field.

Although we are primarily interested in the foreign debt, it will be profitable to note the country's development in this memorable decade, as reflected in the volume of foreign trade, in national revenue and expenditure, and in the consolidated debt, practically all of which was either foreign or owned by foreigners.[4]

COMMERCE AND FINANCES OF ARGENTINA, 1879-1891 [5]

In millions of gold pesos

| Year | Importation | Exportation | Revenues | Expenditures | Funded debt |
|---|---|---|---|---|---|
| 1879 | 64.4 | 49.4 | 21.0 | 22.5 | 77.7 |
| 1880 | 45.5 | 58.4 | 19.6 | 26.9 | 86.3 |
| 1881 | 55.7 | 57.9 | 21.3 | 28.4 | 107.1 |
| 1882 | 61.2 | 60.4 | 26.8 | 58.0 | 124.1 |
| 1883 | 80.4 | 60.2 | 31.0 | 44.8 | 128.0 |
| 1884 | 94.1 | 68.0 | 37.7 | 56.4 | 122.5 |
| 1885 | 92.2 | 83.9 | 26.6 | 40.5 | 113.4 |
| 1886 | 95.4 | 69.8 | 30.4 | 39.2 | 117.2 |
| 1887 | 117.3 | 84.4 | 38.2 | 48.2 | 141.7 |
| 1888 | 128.4 | 110.1 | 34.9 | 51.6 | 277.5 |
| 1889 | 164.6 | 90.1 | 38.2 | 55.8 | 295.2 |
| 1890 | 142.2 | 100.8 | 29.1 | 38.1 | 355.8 |
| 1891 | 67.2 | 103.2 | 19.5 | 33.7 | 370.1 |

From the above tabulation, it appears that within a decade exports had doubled, imports had tripled, and the debt had quadrupled. In no single year was there a budget surplus. The first expansion stage of the decade (1880-1890) came to an end in 1885, when there was an arrest in the importation of capital reflected in

[4] The proportion of internal bonds held by foreigners is partly indicated by the relative number presented for service in Buenos Aires and London. In 1882, only 20 per cent of the "hard dollar" bonds of 1863 were served in Buenos Aires and 80 per cent in London. Some of the 20 per cent were certainly owned by foreigners. *Memoria de Hacienda,* 1882, II, 12.

[5] *Dirección General de Estadística,* Boletín No. 209, pp. 5, 6, 35.

declining imports and shrinking revenue. The peso, which had been restored to a gold basis only two years before as part of a general program of monetary reform unifying the currency into a single national type, lapsed again into inconvertibility.[6] Government borrowing, active from 1880 to 1884, was resumed in 1886, and reached a climax in 1888. Thereafter no new borrowings were undertaken; but the national funded debt continued to increase by the issue of bonds for debt service, for the assumption of provincial debts, and for payment of public works already under way.

We have seen that in 1876 the market for Argentine bonds was exceedingly unfavorable, and that they were the objects of disparaging comment by leading British papers. This attitude continued unchanged until 1879, when a marked rise began, which carried the 6 per cents from 60 to 99½ in July, 1881.[7] Perhaps the very pressure to which the loans had been subjected was responsible for the extent of the recovery. The nation had been widely advertised as unworthy of any confidence, and it was currently believed that its securities were worthless. When its solvency became obvious the rebound was pronounced. Other factors were of importance, especially the final settlement of the political struggle over the nationalization of Buenos Aires as the capital, effected after the revolution of 1880.

Both the nation and the provinces borrowed actively in the years 1880-1884, and intermittently during the entire decade. The number of operations is, indeed, so large as to preclude individual treatment except for a few of the most important transactions.

[6] By this act the weight of the gold peso was reduced to 24.89 grams 9/10 fine, equal to five francs or $.965 U. S. gold, or 96.7 per cent of the old "hard dollar."

[7] Agote, IV, 102.

The first national loan, the so called " French Loan," was made in 1881 for railway extension; its negotiation marked the advent of French competition for Argentine financing. The 12,000,000 gold pesos in 6 per cent bonds were sold to a strong continental syndicate through an agent at Buenos Aires at a price of 82.[8] The public offering was made in Paris and in London, where Murrieta as agent placed considerable amounts at 91, providing one of the widest margins ever obtained on an Argentine loan. Thereafter French bankers were always connected with the underwriting of Argentine securities, until the World War broke the tradition of European domination.

Another small issue of 4,000,000 gold pesos or £817,000 was made in 1882 under similar arrangements. After an unsuccessful attempt had been made to fund the expenses of the revolution of 1880 into internal bonds, an external emission was authorized, which was taken by the same syndicate, and offered in London and Paris simultaneously, in francs and sterling.[9]

To increase the capital of the National Bank by the purchase of 60,000 shares of its stock, a foreign loan of 8,571,000 pesos or £1,700,595 was negotiated with the same bankers. The bankers advanced 24,000,000 francs in return for an option on the bonds at 85, subject to the provision that they be definitely declared an external loan. The bonds were offered in London and Paris at 84½. The syndicate suffered no loss, inasmuch

[8] *Memoria de Hacienda,* 1881, I, x. The syndicate comprised the Banque de Paris et Pays Bas, Comptoir d'Escompte de Paris and L. R. Cahen d'Anvers. There was a 1 per cent cumulative sinking fund for drawings at par. The bonds were in francs or sterling.

[9] Agote, II, 9, 10; De Guerrico, p. 12. A better price was obtained for these 6 per cent bonds, 90 less expenses.

as payments to the government were spread over a period of thirty-three months, making the apparent price considerably higher than it actually was.[10]

The largest and best known Argentine loan of the nineteenth century was the customs-secured Public Works Loan of 1886-1887. It was the result of a combination of several smaller loans, in the flotation of which serious difficulties had been encountered. Two small 5 per cent emissions, authorized in 1881 and 1882, respectively for port and sanitary works in the federal capital, had been combined and negotiated with the same French syndicate, for nearly 12,000,000 gold pesos at 81, a favorable price in view of the fact that the Province of Buenos Aires had issued a loan upon the same security.[11] Stern Brothers, who had sold the provincial bonds, threatened legal objection, so that the operation was suspended after one-third or 4,000,000 pesos gold, had been emitted.[12] As a defense against these claims, a new law was drafted permitting the sale of the remaining 8,000,000 pesos. By that time the market had become weak, and the securities re-

[10] Compare Agote, II, 12, and 145, 147; III, 10; also *The Money Market Review*, 1884, I, 470; and De Guerrico, pp. 12, 13 and pp. 22, 23. The bulk of payments came due within eight months in the case, which still allowed a margin for the banker. Baring made the London offering.

[11] An internal loan, for 1,500,000 gold pesos, sold to a British Bank in Buenos Aires, and reissued in London by Stern Brothers in 1881. It was secured specifically on the Riachuelo (Buenos Aires) Port Works.

[12] Agote, II, 11; III, 8-10; De Guerrico, pp. 12, 13. This was not the first difficulty in which the Argentine had become embroiled because of the planlessness of its credit operations and relations with many bankers; in 1880, Vega, a Spanish banker, sold a block of bonds upon which Murrieta was also asking subscriptions. Bonds had to be bought in the market at 87, above the issue price, to satisfy the English banker's claim. *Memoria de Hacienda*, 1881, p. xlvii and following.

mained in the hands of the government.[13] Later they were made a part of the Public Works Loan, along with the one which we shall now consider.

Late in 1883 a 30,000,000 peso or £5,952,381 loan for various public works, principally railroad construction and equipment, was authorized, with a 5 per cent coupon rate and a 1 per cent sinking fund. An impressive banking group was assembled for the flotation, which was to begin with a block of one-third, or £2,000,000 taken at 84 less $2\frac{1}{2}$ per cent expenses, and the loss of interest for some months.[14] J. S. Morgan and Company published the prospectus in London, on September 3, 1884, naming a price of 84, at the very time that rumors were rife of difficulties in Buenos Aires concerning a possible suspension of gold payments.[15] Almost immediately the bonds fell to a discount, which became more marked early in 1885, when suspension had actually occurred. The bankers found most of the issue left on their hands, and Dr. Pellegrini, later to become president, was sent to London to arrange new terms and to settle differences between the various bankers associated with the different loans.[16]

It is probable that the failure of this loan was caused not so much by the amount of national bonds previously offered, as by those expected in the future, and the large volume that had been sold by the prov-

[13] The French bankers considered their option valid, nevertheless, and objected to the delay. *Memoria de Hacienda,* 1884, I, 16.

[14] Agote, III, 11, 12; De Guerrico, pp. 24, 25. The syndicate included J. S. Morgan and Company, and the Société Générale de Crédit Industriel et Comerciel. This loan was to be fully paid for by the contractors one year after interest commenced on the bonds. An option was held on the remainder at the same terms.

[15] *Money Market Review,* 1884, II, 323, 418. The issue was simultaneous in France, Belgium, and England.

[16] *Memoria de Hacienda,* 1885, I, xiv.

inces.[17] A. De Guerrico, consul-general in Great Britain, thought that rivalry between the various banking groups, employed simultaneously by the government for the flotation of bonds on entirely different terms, had been an important factor tending to create pressure by imposing factions.[18]

Besides these operations, the national government assumed the two loans of the Province of Buenos Aires, contracted in 1870 and 1873 for the construction of railways, port works, and sanitary works for the city of Buenos Aires, nationalized in 1880.[19] The face value of all new loans was roughly £9,460,000 and the provincial loans had been reduced by amortization to about £2,000,000.[20] The heavy amortization of the earlier loans (2½ per cent accumulative at par for those of 1868 and 1871) meant that the outstanding debt was being reduced rapidly, so that new issues between 1880 and 1885 served to increase the total funded debt by only 36,000,000 gold pesos. Had the government been able to float the Public Works Loans, the debt would have been much larger; its small increase was no evidence of a more conservative financial policy.

In the meantime, a number of provincial issues had been emitted. Buenos Aires, though its financial status had been entirely modified by the federalization of the old capital, and the consequent loss of much revenue, borrowed to the extent of 41,000,000 gold pesos face value, for the development of a new capital at La Plata, and for railways and other public works.[21] The Province of Santa Fé likewise in three foreign loans bor-

[17] *Ibid.*, 1884, I, 78.
[18] De Guerrico, p. 25.
[19] *Memoria de Hacienda,* 1881, I, xx and following.
[20] Agote, IV, 93.
[21] *Ibid.*, II, 54-56; III, 50, 51; IV, 55, 57, 92.

rowed 12,500,000 gold pesos for public works and capital for the provincial bank. Buenos Aires was able to obtain as much as 93 for its 6 per cent bonds, and Santa Fé 81½.[22] Some of these securities were turned over directly to railway contractors, who in turn offered them irregularly in London. The face value of provincial issues during these years slightly exceeded the national; but the climax of provincial borrowing was not to come until 1888.

### III. LATER EXPANSION, 1885-1890

The peak of Argentine expansion came from 1885 to 1890, when the national loans mounted to over a hundred million gold pesos, and the provincial loans to nearly as much. The largest single flotation was the national Public Works Loan, for 42,000,000 gold pesos, into which the earlier Public Works Loan for 30,000,000, which failed in 1884, and a smaller loan of 12,000,000 were combined. The new loan was issued in two parts, £4,000,000 in January, 1886, at 80, and £4,290,100 in January, 1887, at 85½, with the specific guarantee of the customs revenues, a provision later of great importance.[23] The bankers paid 75 for both series and were allowed 2½ per cent expenses, but were obligated to share any excess over the issue price of 75, so that they had in effect a margin of 7¾ per cent on the second issue, and 5 per cent on the first. Both of the offerings were successful, thanks largely to the solidity of the sponsoring houses, which included Baring Brothers, J. S. Morgan, Banque de Paris et Pays-Bas,

[22] These are the bankers' prices. There were considerable margins on most provincial loans; for instance, this Santa Fé issue was sold in London at 90. *Money Market Review,* May 5, 1883.

[23] Agote, IV, 22, 35; V, 12, 13.

Comptoir d'Escompte, Cahen d'Anvers, and the Société Général de Crédit Industriel et Comerciel.[24]

Other national loans of the same period were the Northern Central Railway Extension Loan, issued over three years, 1887-1889, at 91½, 94 and 97 for £3,968,000; a "German Loan" issued by Rothschild and others in 1887, exclusively on the continent, for 10,000,000 gold pesos, to pay the debt to the National Bank; and a 4½ per cent Internal Gold Loan for £3,973,000 which was sold by Baring in 1888, at 87.[25] There were also other issues not increasing indebtedness, as follows: £624,000 in 5 per cent bonds exchanged for the 9 per cent Internal Treasury Notes of 1876, which caused considerable misunderstanding between the Argentine and her creditors in 1882; £2,659,000 in 3½ per cent external debt bonds exchanged for the internal "hard-dollar bonds," sold in London in the seventies; and finally, a 4½ per cent Conversion Loan, issued in 1889 for the retirement of outstanding 6 per cent bonds, especially those of 1871 and 1882 and the Provincial Loans of 1870 and 1873. Some £5,000,000 were sold at 90, and like the other loans of this period were well received by the public.

As long as the government could borrow freely affairs went on smoothly. It was in 1889 that difficulties were first encountered in loan offers. In 1890 it became practically impossible to borrow on any terms. The consequent reaction in the Argentine was one of extreme contraction, the collapse of overworked specu-

[24] The public works cost more than the 38,866,000 pesos realized from the loan. *Memoria de Hacienda,* 1886, I, lii. Despite its borrowing the government was accumulating a floating debt, and in its search for funds hit upon the expedient of selling the Andine Railway, a state line. *Memoria de Hacienda,* 1887, I, 79.

[25] *Ibid.,* 1889, I, 146.

lation, and the interruption of public works in full swing, and even of private ventures. Baring was forced to insolvency in November, 1890, largely because of inability to meet payments on Argentine securities purchased from the government. With this collapse went all hope of further borrowing.[26]

The external debt of the nation was only 205,700,000 gold pesos at the end of 1891, as compared with provincial foreign debts of 143,300,000. But the national government was the entire base upon which provincial credit rested because of the organization of the National Guaranteed Banks System, founded in 1887.[27] This measure was intended as a currency reform, limiting the power of emission to banks fulfilling certain conditions, of which the most important were—(1) that internal gold bonds must be purchased as security against note issues; (2) that these bonds must be paid for with gold at not less than 85; and (3) that the quantity of the note issue must not exceed 90 per cent of the bank's capital, which in turn must be greater than 250,000 pesos.[28] Every province except Jujuy took steps to obtain a foreign loan in order to acquire gold for the purchase of internal bonds. Nevertheless, many of the 196,833,000 pesos of bonds that were ultimately emitted were not paid for in gold, and the whole affair was replete with unsavory practices.[29] The quantity of paper money in circulation increased from 85,294,000 on November 3, 1887, when the law went into effect, to 158,268,000 on December 31, 1889, and to 245,000,000

[26] *Ibid.*, 1891, I, ix and following. It was estimated that a currency emission of from 150,000,000 to 200,000,000 pesos would have been required to continue the debt service through 1891. *Ibid.*, p. xxiii.

[27] *Ibid.*, 1891; cf. Hansen's estimate of the foreign debt.

[28] *Memoria de Hacienda*, 1897, I, xcvi and following.

[29] Gorge Pillado, *El Papel Moneda Argentino*, pp. 59-63.

at the end of 1890, while the gold premium rose from 35 per cent to 150 per cent.[30] Meantime the foreign provincial loans depended for their service upon the income derived from the national bonds securing the currency. When the nation was unable to continue paying its way by new borrowing, it was compelled to suspend this service, and all of the provinces immediately defaulted.

For the sake of simplicity it is best to do no more than refer to the provincial debts. By the end of 1888, according to Agote, thirteen of the provinces had contracted foreign loans; but three of them could not be floated because of the market decline.[31] Some of the provinces had borrowed for other purposes than banking; their debts at the end of 1888, when foreign borrowing ceased, being as follows: Buenos Aires 85,500-000 pesos of which 50,000,000 had been obtained since 1885; Santa Fé, 36,915,000 pesos; Córdoba, 19,050,000 pesos; Entre Rios, 17,491,000 pesos; Mendoza and Corrientes, each 5,000,000 pesos; Tucumán and Catamarca, each 3,000,000 pesos; San Juan 2,000,000 pesos and finally San Luis with 756,000 pesos.[32] It is remarkable that these provinces, for the most part unheard of by investors, should have been able to borrow at all; but in no case did they receive less than 81 for their 6 per cent obligations.[33]

There were also municipal loans, issued by Buenos Aires, Rosario, the second city of the republic, Córdoba, Paraná and Santa Fé, of which the total outstanding in 1891 amounted to 24,596,000 gold pesos, as com-

[30] *Memoria de Hacienda,* 1891, I, 163 and following.

[31] *Ibid.,* p. 223. Agote, V, 92, 93. Salta, Santiago del Estero, and La Rioja had arranged foreign loans through the Banco Nacional, but did not realize on them.

[32] Agote, V, 92, 93. Compare *Memoria de Hacienda,* 1891, I, 210.

[33] Agote, V, 92, 93.

pared with 143,315,500 gold pesos for provincial loans, and 205,700,000 gold pesos for national loans. Moreover, the national government had so freely extended guarantees to capital invested in railways that there was in 1891 an annual liability estimated at £921,000 to be met. There were also national mortgage bonds or cédulas for 20,000,000 gold pesos and 81,680,000 paper, and provincial cédulas for 230,000,000 paper; of these considerable amounts were held abroad. The Corporation of Foreign Bondholders, in its *Annual Report* for 1891, placed the total foreign claims against Argentina at £105,125,000 and estimated the annual service charge at £7,767,076. The governments could not begin to meet this obligation, and adjustments were made covering the next ten years.

## IV. CRISIS AND SETTLEMENT

In spite of the advanced state of inflation which Argentina had reached in 1888, conservative British opinion continued optimistic. As late as April, 1890, the *Economist* remarked that the natural wealth and fertility of Argentina would keep the government from default, although some adjustment might be necessary for state and cédula obligations.[34] In July, its confidence was diminished, because of continued cédula emissions, the sale of the Western Railway by the Province of Buenos Aires in a desperate effort to postpone bankruptcy, the suspension of the National Bank of Uruguay and the condition of certain London banking houses, stuffed with Argentine bonds. Especially was the Water Supply and Drainage Company Loan a fiasco.[35] Later in 1890, after Baring had failed, it was recognized that a debt settlement was necessary;

[34] *Economist*, 1890, I, 1486.
[35] *Ibid.*, July 12, 1890.

but the seriousness of the crisis was still underestimated.

The first plan of settlement was arranged by Dr. de la Plaza, later president of the Argentine Republic, who had been sent to London to arrange a new foreign loan. A committee appointed by the Bank of England as receivers for Baring Brothers, known as the Rothschild Committee, co-operated. Under its terms all interest payments for three years following January 1, 1891, including railway guarantees, were to be paid with bonds of a 6 per cent funding loan for £15,000,000, except the customs-secured public works loan of 1886-1887, which was to be served in cash. In return the government was to pledge itself to undertake no new obligations, and to amortize at least 15,000,000 pesos of its currency each year for three years, if the premium remained over 50 per cent.[36] These restrictions were extraordinarily unpopular in Argentina, as a form of foreign dictatorship.[37] In the meantime, the settlement of provincial debts was to be made between the issuing houses and the debtors, a procedure which took ten years to conclude.

Pressure against the plan of paying debts by the increase of debt grew as it became apparent that cash payments could not be resumed in January, 1894. At first British bankers refused even to discuss the question; but Finance Minister Romero, a strong and capable executive, finally induced the bondholders' committee to accept £1,565,000 in annual service. According to this agreement, service of the 5 per cent Customs

[36] *Memoria de Hacienda*, 1890, I, 41 and following. Compare also Corporation of Foreign Bondholders, *Annual Report*, 1891, pp. 16 and following. J. H. Williams, *Argentine International Trade*, pp. 125-128.

[37] Compare J. A. Terry, *Contribución a la Historia Financiera de la República Argentina*, p. 28. Also *Memoria de Hacienda*, 1893, I, 154-156.

Loan of 1886, the 6 per cent Funding Loan of 1891, and the 5 per cent Water Works Loan, issued in 1892 to satisfy contractors claims, was reduced 1 per cent, to 4 per cent or 5 per cent annual interest, for five years.[38] Interest on other loans was reduced to 60 per cent of the coupon for the same period. Full interest payments were to be resumed on July 12, 1898, and the sinking fund on all loans was suspended until January, 1901.[39] The arrangement was highly successful; interest payments were resumed in full a year before the stipulated time, and Argentine bonds rose to high quotations almost immediately, indicating small loss of prestige.

Between 1897 and 1900 all the provincial debts were settled with 4 per cent national external bonds, and the provinces obligated themselves to pay the service into the treasury; this has rarely been done.[40] Railroad guarantees were also funded into 4 per cent bonds. Certain other loans were also issued during this time to pay for public works already constructed, such as the Sanitary Works Loan, which was issued in 1891 for 31,875,000 pesos. The effect was to bring about a rapid increase in the national funded debt, which reached the imposing figure of 447,192,000 gold pesos in 1900.[41]

[38] Later on this 1 per cent was paid, but the reduction on the other loans was not funded.

[39] Based upon accounts in Corporation of Foreign Bondholders, *Annual Report,* 1893, and in the *Memoria de Hacienda,* 1893, I, 150-154.

[40] The national government issued 86,000,000 gold pesos in 4 per cent external bonds in exchange for 151,776,000 pesos of the provincial issues. *Memoria de Hacienda,* 1899, I, 28.

[41] Estimates of the national debt are somewhat various at this time, because of constant additions. This one is from revised data. *Dirección General de Estadística,* Boletín No. 209, p. 35.

## V. CREDIT SINCE 1900

Between 1900 and 1914 Argentine financial history has been relatively uneventful. In 1899 the currency was established upon a gold value at 44 per cent of its original par.[42] Banking facilities have been developed to supply the gap created by the collapse of both the provincial and national banks in 1891. International trade flourished, capital began to flow into railways, packing houses, and power companies; even considerable quantities of gold were attracted.

Argentine credit had improved so rapidly that a conversion loan was projected as early as 1905, to redeem all external 5 or 6 per cent bonds, with external 4½ per cents or internal 5 per cents. In accordance with this plan the 6 per cent funding loan of 1891 was retired in 1906 with short term advances, which were funded into a long time offering of internal 5 per cent gold bonds in 1907. Denominated "internal," they were nevertheless sold in London, Paris and Berlin at fixed rates of exchange, to the value of £7,000,000.

There were two other national government operations in foreign markets, the 5 per cent Public Works Loan of 1909, issued in London, Paris, Berlin and New York at 99, amounting to £10,000,000 and the 4½ per cent Internal Gold Loan of 1911, for 70,000,000 gold pesos, issued in Paris and Antwerp, at 99½. Both of these were internal loans, but payable in gold in foreign currencies at fixed rates of exchange. They were the most favorable loans ever obtained by Argentina. The national government also assumed a debt contracted by the Municipality of Buenos Aires in 1909 amounting to nearly £3,000,000 sterling. Because of the peculiar position of the city as a federal area, and because its

[42] Original gold value equals $.965 U. S. gold.

revenues had necessarily to pass through an experimental stage after separation from the province of Buenos Aires, the federal government has supported it on occasion, and their finances are closely related.

In 1914 the Argentine Republic, having emerged from the depths of one of the most spectacular of modern crises only a few years before, enjoyed a credit exceeded by none except the old creditor nations of Europe. This happy experience was soon to be put to a new and more severe test.

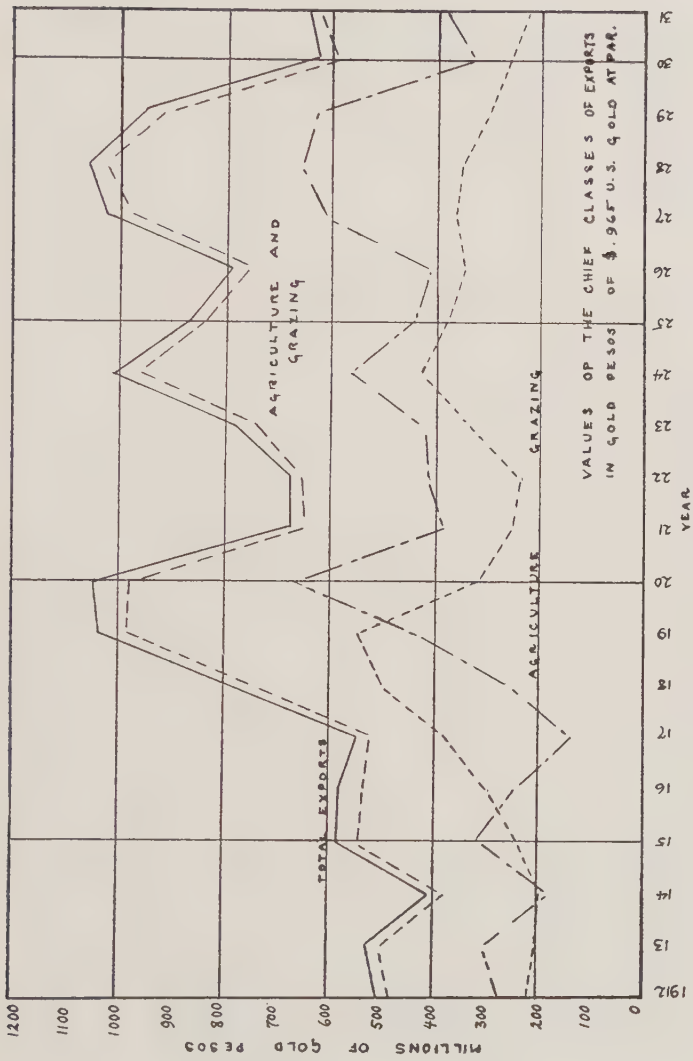
## CHAPTER III

### Financing the Argentine through the War Period

I. Basis of the National Wealth. II. Monetary System. III. Banking Structure and the Floating Debt. IV. The Funded Debt. V. Conditions in 1914. VI. Effects of the War. VII. Attitude of the United States. VIII. War Borrowing. IX. Summary.

#### I. BASIS OF THE NATIONAL WEALTH

In the last analysis it is upon the productive capacity of its people that a nation's credit rests. Before entering into the complexities of fiscal detail, it is therefore desirable to consider, if only briefly, the general nature of Argentine wealth. The picture is amazingly simple; the basis of the nation's prosperity lies almost entirely in agricultural and grazing products. With its beef and wheat, corn, linseed, hides and wool, the country pays for all that it imports from abroad, and it is upon the value of these commodities that its credit rests. Chart I, showing the values of the chief exports, illustrates how complete is the dependence upon rural products. The simplicity is excessive; a concentration of interest in a small group of related products is obviously a bad risk. As a result, it is not at all an unfamiliar spectacle to find the credit of the entire nation measured in the exchanges of the world with complete reference to the value of a single commodity—wheat. When grains and meats are high so are the Argentine bonds; and when they fall, or threaten to fall, the securities go with them.




Source, *Dirección General de Estadística*, Boletín No. 209, p. 19.

CHART I.

Chart I discloses interesting fluctuations in the values of exports for the seven years from 1914 to 1921. The value of exports rose from a trough in 1914 to approximately the pre-war level for the three succeeding years, advanced rapidly in 1918, and reached a crest in 1919 and 1920, thereafter falling abruptly with the post-war price collapse. If there is anything surprising in this curve, it is the fact that the values of Argentine exports responded so sluggishly to the war-time price increases. Not until 1918 was there any appreciable rise; even then it was not exorbitant. Argentina was distinctly not a war profiteer.

One of the reasons for this unresponsiveness lay in the fluctuations in the quantity of the physical product. Grazing products appear in nearly constant amounts, since the chance element has little to do with the volume of production. Hence the fluctuations in the value of such exports reflects rather accurately the change in price. But the volume of agricultural production is largely fortuitous, and in two years during this period, 1914 and 1917, there were failures of the grain crops. At the very time when grains were needed so desperately throughout the world the pampas were reduced to an almost barren state by drought and locusts. In 1917 restrictions had to be enforced to prevent the export of grain needed for consumption within the country. During the four years beginning in 1914 there was not a single bumper crop; none that was even equal to those of 1912 and 1913. The value of exports was further restricted by the scarcity of shipping, and the extremely high rates charged. Such factors were in effect simply deductions from the price that would have been paid in Buenos Aires, and resulted in a great disparity of wheat prices between the producing and consuming centers. The correspondent of the London

*Economist,* writing on August 12, 1919, remarked that freight rates had fallen from £13-10s per ton to £9 per ton, and in 1917 reached £45.[1] These figures are almost unbelievable as against a pre-war rate of 12s per ton, or the present-day rate of 20s per ton to Europe. They had a tremendous effect in depressing the value of Argentina's export trade, and in preventing escape from treasury difficulties.

## II. MONETARY SYSTEM

Of high importance has been the country's financial system, if such it may be called. Its most characteristic feature has been the lack of any deliberate arrangement and central control. A monetary system,[2] besides playing a large part in determining the amount of confidence foreigners place in national credit, will help or hinder the development of an investors' market, even in so traditionally a debtor nation as Argentina. The banking structure has a still more obvious connection with the supply of funds to a needy treasury, whose relations with the state bank are complicated.

Argentina has had since 1899 a dual currency, a paper and a gold peso, having a fixed ratio of forty-four centavos gold to one peso paper. For internal transactions the paper peso is used exclusively, while

[1] *Economist,* 1919, II, 432.

[2] The prime sources used for this review of money and banking are: *Department of Commerce Publications,* Miscellaneous Series, No. 88, Special Agents' Series, No. 90; *Federal Reserve Bulletin, 1918,* pp. 735 ff., p. 943; 1920, pp. 592-600; 1921, p. 575; James A. Cuneo, *Banking and Currency in Argentina;* Carlos F. Soares, *Economía y Finanzas de la República Argentina;* E. Hansen, *Argentine Financial Emergency Measures on the Outbreak of the European War,* and *Actualidades Monetarias; Reports of the Bank of the Argentine Nation; Economic Review of the Bank of the Argentine Nation;* Files of the London *Economist* and *La Prensa* of Buenos Aires, and Tornquist's quarterly business reviews.

international payments are ordinarily stated in terms of the gold unit. The double system arose from the depreciation of the paper currency after the suspension of conversion in 1885, and its subsequent stabilization at 44 per cent of its original value in 1899. There has never been any large circulation of Argentine gold coins, although in the nineteenth century Spanish doubloons and the coins of other South American countries circulated freely. Conversion has always meant, both in the rare intervals before 1883 when it was in effect and since 1900, the sale of gold at a fixed rate solely for the purpose of making foreign payments. The gold peso has never been minted, while the argentino, or five peso piece, the standard gold coin, has never been circulated extensively, and is almost a rarity.[3]

The currency law of 1899 provided that no further issues of paper money should be made without an equivalent deposit of gold in the Conversion Office; that is, any addition to the circulating medium must have a 100 per cent gold guarantee, and similarly, any gold withdrawals must be accompanied by the retirement of an equal amount of paper.[4] In order to provide reserves for the paper already outstanding, amounting to

[3] The obvious explanation is, of course, that the gold coins would be driven out of circulation by the simple operation of Gresham's law during periods of inconvertibility. Since these have been continuous in Argentina since 1914, gold could not be expected to circulate. The supply of Argentine gold pieces is extremely limited, none have been coined since the 80's. There is hardly a country in the world which is more truly dependent upon an exclusively paper currency. It has been said that the shopkeepers of Buenos Aires would probably refuse their own national gold piece, because they would not recognize it.

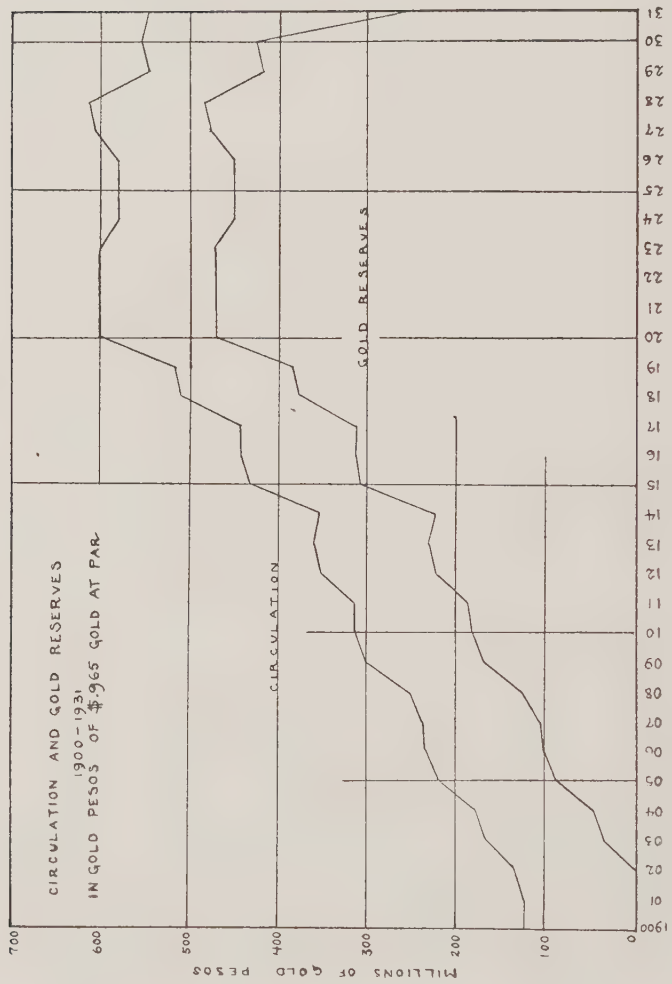
[4] Cf. Chart II. Circulation and Gold Reserves, 1899-1931, page 84. The paper peso is indicated by the symbol $, and the abbreviation m/n (moneda nacional) following the number of pesos; thus $1,000 m/n, a thousand paper pesos.

293,000,000 paper pesos, the proceeds of special revenues were assigned. It was originally intended to accumulate a 100 per cent gold reserve against this as well, but the amount was later reduced to a fixed fund of 30,000,000 pesos gold or 68,100,000 pesos paper, a reserve of approximately 23.2 per cent. These provisions regarding reserves were observed until 1931. Every paper peso added to the circulation had a 100 per cent gold reserve; so that as the volume of currency expanded with the development of the country, the percentage of gold cover rose higher and higher.

The Conversion Office, an entirely independent entity, was able to maintain gold payments with no difficulty until 1914, when a banking crisis, threats of large withdrawals for export, and the general confusion arising from war conditions brought about suspension on August 9, 1914; this continued until August 25, 1927. During the period of inconvertibility the peso fluctuated in value from a 10 per cent premium on the dollar,[5] to a low of sixty-six United States cents (monthly average) in August, 1921. It is important to note that when conversion was suspended, the gold peso was quoted as a paper currency, and the ratio between the gold and paper remained constant, both fluctuating together, a precedent that was followed after December 16, 1929, when the gold standard was again abandoned. The gold peso is therefore nothing but a theoretical monetary unit, whose value is always 2.27 times that of the paper peso, and is in no sense a real gold unit.

Conversion was resumed on August 25, 1927, by which date the peso had returned to par. It was con-

[5] In December, 1917. At various times between August, 1919, and May, 1920, the Argentine peso was at a premium over every one of the world's major currencies.




Source, *Dirección General de Estadística*, Boletín No. 209, pp. 37, 40.

CHART II.

tinued until December 16, 1929, when the balance of payments again became unfavorable. On this occasion the suspension came before any considerable amounts of gold had been withdrawn, and was induced by fear not of the loss of gold itself, but of the violent currency and credit contraction consequent upon the withdrawal of circulating medium following such a loss. The mechanism of a central banking system was not available to take up the strain, and in any event, the contraction of credit could have had only the effect of making more difficult the management of the floating debt, then already weighing heavily on the disorganized banking system. This relationship will be developed later in connection with the debt.

### III. BANKING STRUCTURE AND THE FLOATING DEBT

Argentine banks are of three general types: government, private foreign and private local institutions. The government banks are the Bank of the Argentine Nation, a theoretically independent organization which may be considered government owned, and the various provincial banks, whose shares are in some cases held entirely by their respective provincial governments, and in others are divided between the government and the public. Operations of the provincial banks are generally confined to local business, and except as to the Bank of the Province of Buenos Aires, are not important in the present connection. The foreign banks are the largest and most active of the private establishments, being dominated by the great English institutions, the Bank of London and the River Plate, the Bank of London and Brazil, the British Bank of South America, and the Anglo-South American Bank. There are also German, Spanish, French and Italian banks, specializing in the commercial needs of their respective

countrymen; but they are of comparatively small size, as are the privately owned Argentine institutions.

The Bank of the Argentine Nation was founded in 1891 with an emission of paper currency for capital, after the previous national bank had become insolvent. In 1914 it held and still holds the dominant position in the banking community. Besides having the largest commercial business in the country, it acts as the official agent of the federal government, both in foreign and local transactions, in collecting revenues and in paying government debts. It is a supposedly independent institution, whose sole object is to meet in adequate fashion the financial needs of the public. Although it has undoubtedly acquitted itself well in this regard, the chief object of its establishment was to provide credit accommodation for the national treasury, and it has stood in the position of an emergency reserve ever since.

After the confusion of the nineties the government paid off its indebtedness to the bank, and a legal limit of 25 per cent of the bank's capital was set on any future government borrowings. In case of real need this limitation has always been waived, as it was during the period we are now considering. The bank has also on occasion concealed the true extent of its loans to the government, by accepting them in the form of rediscounts from other banks, and therefore not subject to the percentage limitation.

The Bank of the Nation is not charged with responsibility for banking conditions within the Republic. As an official, non profit-making institution it has, however, always pursued policies intended to moderate the fluctuations of the market. Perhaps the most important activity in this regard is found in its exchange operations. When the Conversion Office was open, the bank

kept heavy gold holdings in its own vaults, against which, of course, no currency was issued. In event of heavy gold shipments by other banks which had obtained the metal by exchange of circulating medium, the Bank of the Nation in its discretion pursued the opposite course, by depositing free gold from its vaults at the Conversion Office, in exchange for currency, used in the purchase of commercial paper. This shock-absorbing action tended to keep the circulation more constant through the year. The bank's gold reserves, carried intact through the dull season, were also used to expand the currency in preparation for harvesting the succeeding crop, an expansion which naturally preceded the return of specie from abroad.

The Bank of the Nation has always provided a limited measure of safety for its competitors. It has done this indirectly, by judicious use of its gold reserves, as we have just seen. It has also made loans to other banks. In 1914, by an emergency measure, it was authorized to rediscount commercial paper presented by other banks, which it could in turn deposit, with the consent of the president, at the Conversion Office in exchange for paper money; provided that the gold reserve against the total issue never fell below 40 per cent. The bank thereafter frequently discounted or purchased the paper of other banks; until 1931, it never rediscounted this paper at the Conversion Office. The private banks have regarded support from the state bank as an indication of weakness, to be used as a last recourse; they continued to view the Bank of the Nation as a competitor rather than as a central bank.

The decentralized credit structure has affected banking practice, in that it has been necessary to hold large cash reserves. Not all of this characteristic of Argentine banking can be attributed to decentralization. The check has not yet outstripped paper money as the com-

mon means of payment, and currency must therefore be supplied in larger amounts. Some indication of banking practice is given in the following table:

DEPOSITS, ADVANCES AND DISCOUNTS, AND CASH OF ALL ARGENTINE BANKS, AND NATIONAL GOLD HOLDINGS IN MILLIONS OF PAPER PESOS, 1914-1920 [6]

| Year | Deposits | Advances and discounts | Cash | Total gold holdings |
|---|---|---|---|---|
| 1914 | 1241.8 | 1241.4 | 659.2 | 754.8 |
| 1915 | 1468.9 | 1238.7 | 716.5 | 780.4 |
| 1916 | 1656.8 | 1316.7 | 700.0 | 788.8 |
| 1917 | 2013.7 | 1553.3 | 786.2 | 840.4 |
| 1918 | 2843.4 | 1884.6 | 953.3 | 977.7 |
| 1919 | 3009.5 | 2113.2 | 920.4 | 1021.9 |
| 1920 | 3529.6 | 2500.4 | 1185.2 | 1165.9 |

The gold cover for the currency outstanding is usually high (the table does not indicate this), and the cash in turn is large relative to deposits, although the proportion is a decreasing one. Total advances and discounts have hardly been more than twice the actual monetary stocks of the country, an extraordinarily small ratio. Large gold reserves have not meant corresponding expansion in credit operations that would probably have resulted in a more sensitive system.

These figures are of significance, also, in relation to the national finances as indicating the difficulty that must arise in obtaining credit accommodation in the volume required by a series of sizable deficits. Actual governmental expenditures during the years 1914-1918 averaged 175,000,000 gold pesos per year, or 397,000,000 pesos paper; this was more than 25 per cent of the total bank credit outstanding in 1915. The placing of government notes resulting from any substantial deficit, say 100,000,000 pesos paper, would have caused in 1914

[6] Data from Carlos F. Soares, *Economía y Finanzas de la Nación Argentina*, I, 91; II, 192.

an expansion of 8 per cent in loans outstanding. The deficits of the years 1914-1918 are reflected in the figures for advances and discounts in the above table. Until 1917 they are not noticeable, most of the increased floating debt having been placed in foreign markets. After the beginning of 1917 the increase is rapid, representing both the deficits of following years, and the assumption by Argentine banks of external short term loans. Government notes were considered undesirable investments because of the low yield of 6 per cent or less; from 6 to 12 per cent might easily be obtained on commercial loans.

Of possible banking accommodation, moreover, the facilities of the Bank of the Nation were limited to 25 per cent of its capital, that is, to a comparatively small sum of 72,000,000 pesos paper. To exceed the limit (a normal condition during the war) was an admission of treasury weakness, and has always aroused the vociferous opposition of the anti-inflation party. When the limit is exceeded, every effort is made to return to the normal state by placing the debt among the private banks, so that the overdraft at the state bank has rarely passed 50,000,000 pesos paper.

This internal short-term loan market sometimes offered the government unusual opportunities, as when money rates were much lower than those existing in foreign centers. On occasion very large quantities of government paper were absorbed, with no apparent difficulty. It was, however, an extremely uncertain market, not only as all short-term markets are, but as one rendered especially sensitive by the inadequate systemization of the banking structure. Moreover, no extensive funding could be arranged there. Certainly during the war period such a step was impossible, a disability which made the short-term market itself less useful.

## IV. THE FUNDED DEBT

One of the gravest handicaps to the efficient management of Argentine finances is the utter lack of an internal investment market. Before 1914 no large part of the funded debt had ever been successfully floated in Buenos Aires. Formally, however, the funded debt has been divided into three classes, the external, the internal gold and the internal paper.

The external loan is the normal and most important source of borrowed funds. In 1913, external loans comprised 57 per cent of the funded debt; they were all old obligations either contracted before the collapse of 1890, or deferred payments and claims arising at that time. This proportion does not actually represent the total foreign debt, since the internal gold bonds also properly fall into the category. Floated abroad, and in terms of foreign monetary units, the internal loan acts provided that the issues might be made in foreign currencies at the par of exchange.

Internal rather than external loans were issued because the legislative authorization provided for either 4½ per cent external bonds or 5 per cent internal bonds. When in 1907 the treasury was pressed for funds to meet maturing short term obligations, and found itself unable to obtain satisfactory offers for the 4½ per cent externals, the offering was made in the form of an internal loan.[7] The restriction was evaded by simply denominating the loan "internal," an operation which was repeated under similar circumstances in 1909. The bonds were sold in London, Paris, Berlin, Amsterdam, New York and in small amounts in Buenos Aires, payable in gold pesos, or in the currency of any of these financial centers at the par of exchange.

[7] Peña, J. B., *Deuda Argentina,* Tomo II, 1090-1092.

By 1909 Argentina's credit had so far recovered that 5 per cent bonds could be sold at approximately par to the same English creditors who had lost so heavily less than twenty years before.[8] In 1914 the so called "internal" gold debt was 29 per cent of the funded debt. Waiving the negligible proportion held in Argentina,[9] the total amount outstanding of all the properly external bonds amounted in 1913 to 86 per cent of the funded debt.

The internal paper loan is so at least in form. Interest and principal are payable, as the title indicates, in paper currency, and the flotations are always made in the home market, through the Bank of the Nation. Many of these securities are owned by foreigners, especially by Europeans, who sometimes keep them on deposit in Buenos Aires with a collecting agent. The internal paper debt amounted to 14 per cent of the funded debt in 1913, and was the only part assignable in any degree to the Buenos Aires market. The relative importance of the various types of debt was in 1913 as follows:[10]

| | |
|---|---|
| Internal paper | 76,000,000 gold pesos. |
| Internal gold | 156,000,000 gold pesos. |
| External gold | 312,400,000 gold pesos. |

The reason for the poor local market for government securities is not far to seek. It has been succinctly stated by ex-president Irigoyen, in a message to the

[8] The 1909 loan was sold to the public at 99 per cent.

[9] At the end of 1914, of a total outstanding of 155,990,000 gold pesos of internal gold bonds, only 2,280,500 gold pesos of the 4½ per cent loan of 1887 and 562,000 gold pesos of a 5 per cent loan issued in payment for National gold cédulas in 1891 were really internal. Cf. Corporation of Foreign Bondholders *Annual Report* for the year 1916, p. 60.

[10] Tornquist, *Economic Development of the Argentine Republic in the Last Fifty Years*, pp. 302, 303.

Congress of 1917:[11] "In our country, external loans have always provided, with rare exceptions, the sums demanded by the public treasury. . . . . The flotation of internal loans has failed because the people prefer the advantage of other investments. Favorable external offers have always made internal efforts unnecessary." In other words, whenever capital was available, there were too many more profitable uses for it. Estancieros would invest their surplus funds in equipment or in land. Banks have never held government bonds, preferring to finance the nation's industrial and commercial activity, or to lend on high yield mortgages. The only financial institutions in the country holding public securities have been the insurance companies, all of them foreign and required to keep a small percentage of their assets in federal bonds.[12] There has been at times political antagonism between radical governments and the wealthier citizens, which has probably tended to impede issues; but the general preference for more profitable commercial investments has been the dominant factor.

A word may be added here concerning a type of semi-governmental obligation, the cédula, or bond of the National Mortgage Bank.[13] The cédula has been issued exclusively in Argentine currency, either gold or paper, against the security of farm land, pledged as collateral for loans from the bank; in addition, it has carried the guarantee of the federal government. Most of these

[11] *Memoria de Hacienda,* 1917, p. 25.

[12] F. M. Halsey, "Investments in Latin America and the British West Indies, 1918," Department of Commerce Special Agents Series No. 169. Insurance companies were compelled to deposit some 300,000,000 m/n with the Caja de Conversion or the Bank of the Nation as security for the fulfillment of their obligations. This deposit could be made in the form of national government bonds.

[13] Corporation of Foreign Bondholders, *Annual Report,* 1916, p. 59.

cédulas were in 1914 owned in Europe, having been especially popular in Belgium and Holland before the war. They were issued on terms very similar to internal bonds but with slightly higher yields.

The circulation of cédulas increased from 250,755,000 paper in 1910 to 620,255,000 in 1920, and to 1,429,048,000 by the end of 1929, at which level they have since remained practically constant.[14]

## V. CONDITIONS IN 1914

For three years preceding the outbreak of the European war, Argentina had enjoyed increasing commercial activity. According to the figures of international commerce, her imports had tended to overtake exports in the normally favorable balance of trade,[15] so that the required surplus of about 150,000,000 gold pesos [16] destined for the service of capital already invested in the country was not obtained in a single year. Far from being an unfavorable factor, this statement merely indicates that capital was being either invested or reinvested in considerable quantities. Such a phenomenon, when not excessive or represented by ill-advised enterprises, is the highest mark of confidence that could be shown.

[14] From 1891 to 1893 interest on the gold series cédulas was paid in 5 per cent Internal Gold Bonds, which were afterward redeemed in full; cf. Corporation of Foreign Bondholders, *Annual Report*, 1925, p. 55. The federal government in 1890-1891 also granted the Mortgage Bank some $30,000,000 paper pesos, of which it used very little, to overcome its difficulties. J. H. Williams, *Argentine International Trade under Inconvertible Paper Money*, p. 121. Practically all of the cédulas are now held internally; but this was not true in 1890.

[15] Cf. Chart III.

[16] Estimated by Tornquist in 1916 as the amount required for interest on all foreign investments, in his "Balance of Payments for Argentina." Cf. Department of Commerce, Foreign and Domestic Commerce, Miscellaneous Series No. 88.

First indications of trouble came with the failure of the cereal crop of 1913-1914.[17] The disaster fell heavily upon land values, kept to high figures in preceding years by free lending policies of state and private mortgage and commercial banks.[18] Gold began to leave the country early in 1914, and the federal government, in spite of its high credit, was unable to obtain in a supersensitive money market even so much as a £3,000,000 advance on reasonable terms.[19] A combination of the worried European capitalist and of local crop failure put an end to an era of plenty, to be followed first by an interval of suspense during the first half of 1914, and by a definitely new epoch beginning with the Great War.

The war upset the equilibrium of the sensitive structure used to finance international trade. Credits were called back to London, and matters were brought to a complete standstill. Even the most optimistic knew that the balance of trade was to be affected, that capital would not flow so freely for a while, and that there must be, therefore, a wider margin between exports and imports. The Argentine was asked to pay, and was asked with a suddenness which simply could not be met.

## VI. EFFECTS OF THE WAR

The outbreak of the war precipitated a financial crisis in Argentina. A week's banking holiday was declared

[17] Wheat exports in 1914 were only one-third the average of the preceding years. Cf. Boletín No. 209, El Comercio Exterior Argentino, 1932, p. 21.

[18] Cf. Soares, *op. cit.*, I, 9-10 and pp. 34-36 for some discussion of banking liberality.

It was estimated by the *Economist's* correspondent that 400,000 paper pesos in cédulas, or mortgage bonds, had been sent to Europe between 1910 and 1914. In the latter year the demand disappeared; cf. *Economist*, 1914, I, 831.

[19] *Ibid.*, p. 292.

beginning on August 2, 1914, followed by a one month moratorium. During this period several emergency measures were passed;[20] the Conversion Office was closed, and gold payments were suspended. The Bank of the Nation was authorized to use 30,000,000 gold pesos of its currency reserves in any useful manner; and it was further provided that the Conversion Office might rediscount commercial documents not exceeding one hundred eighty days time, emitting an equivalent amount of currency, provided that the gold reserves should never fall below 40 per cent. Presidential permission was required as a preliminary step, a proviso that may have been responsible for the fact that rediscounting was never resorted to from 1914 to 1931. Immediately after its passage, changes in the law referring to the manner of determining the discount policy were asked by President de la Plaza; but none were made. All the vicissitudes of war-time finance were suffered, therefore, without any modification in practice of the monetary and banking system. Gold payments were suspended, it is true; but currency was not issued except against deposit of gold. There was no monetary inflation, except that incident to the depreciation of the value of gold. Currency expansion was accomplished only by the equal increase of gold stocks.[21]

[20] There is a good account of these measures, and of the crisis, by Carlos F. Soares, I, 9-44. Also see the *Federal Reserve Bulletin,* 1920, pp. 592-600, which gives a résumé of the emergency measures with a brief treatment of the banking system. Other accounts are found by Emilio Hansen in *La Moneda Argentina,* pp. 493-542, and also in his pamphlet, "The Argentine Financial Emergency Measures on the Outbreak of the European War."

[21] Cf. Chart II. One of the emergency provisions of 1914 permitted this gold to be held abroad, as deposits in legations, but the reserve was a real one, except possibly in the case of the United States, when the metal was serving as a gold reserve for both countries, since currency was issued against it in Argentina, while the gold was entered as a current account at the Federal Reserve Bank

The foreign trade of Argentina was dealt a severe blow by the war. Imports suffered most; their value fell in 1914 no less than 170,000,000 gold pesos below the preceding year. This decline of over 30 per cent was attributable to the lack of shipping facilities, the blockade of some belligerents from world trade, the declining interest of the allied nations in maintaining their foreign markets, and the reduced purchasing power of the nation, as reflected in reduced exports, and in individual items affecting the balance of payments. Capital imports ceased, and the loss had to be made up by an increased margin in the favorable balance of trade. As a matter of fact, imports showed no substantial increase over pre-war aggregates until 1919. Unfortunately, the volume of imports determines the yield of the customs duties, which formed the largest single item in the list of revenues, amounting in 1913 to more than 53 per cent of the total. The yield of these duties followed their physical volume because the levy was made in accordance with a fixed valuation scale, which did not change as rapidly as prices. To increase tariffs is in Argentina simply to increase the cost of living. It would have operated to accelerate and exaggerate the war time rise, and was a course which appeared fraught with grave political consequences. The extent to which the decline in customs yield affected the national revenues may be seen from the table on page 70.

Other revenues were also sensitive to the contraction of foreign trade, even though not to the same extent.

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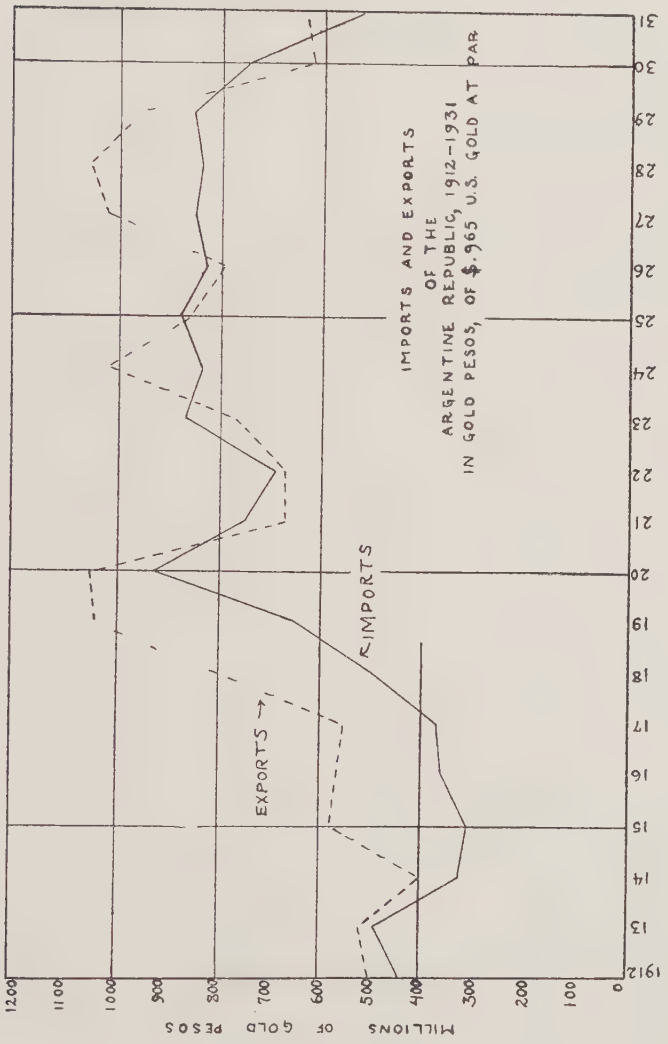
of New York. In the other cases the embassies had direct control of the metal; cf. Carlos F. Soares, *op. cit.*, II, 58-61, where the contract with the United States is given. By the end of 1915 deposits in European legations had reached 56,500,000 gold pesos, and on December 31, 1918, 99,500,000 gold pesos, about one-fourth the total gold reserves, was so held.




Source, *Dirección General de Estadística*, Boletín No. 209, p. 6.

CHART III.

They did not decline greatly, but simply failed to continue the normal rate of increase. During the war period the taxing system was modified only in the slightest degree, in spite of the obvious need. The preponderance of indirect taxation may be seen in the table on page 71 showing the sources of national revenue from 1913 to 1920. In 1920 there was a striking gain, not from any increase in rates, but in reflection of the large purchases made by the goods-starved nation when world trade was once more opened.

A two years campaign for tax reform, launched by Irigoyen on his accession in 1916, ended with a single result, a variable export tax, imposed upon certain

CUSTOMS DUTIES AND TOTAL REVENUES, 1914-1931

Millions of gold pesos

| | Total revenues | Customs duties on imports | Customs as a per cent of total revenues | Customs as a per cent of value of imports |
|---|---|---|---|---|
| 1913 | 163.2 | 87.6 | 53.7 | 17.6 |
| 1914 | 124.2 | 52.1 | 42.0 | 16.1 |
| 1915 | 111.4 | 41.8 | 37.5 | 13.6 |
| 1916 | 112.2 | 46.1 | 41.0 | 12.6 |
| 1917 | 111.9 | 42.5 | 38.0 | 11.1 |
| 1918 | 145.2 | 39.0 | 27.0 | 7.7 |
| 1919 | 180.9 | 49.0 | 27.1 | 7.4 |
| 1920 | 228.4 | 70.5 | 30.9 | 7.5 |
| 1921 | 205.0 | 70.6 | 34.4 | 9.4 |
| 1922 | 203.8 | 80.6 | 39.5 | 11.6 |
| 1923 | 241.7 | 106.7 | 44.1 | 12.2 |
| 1924 | 250.4 | 112.9 | 45.1 | 13.6 |
| 1925 | 291.5 | 133.1 | 45.6 | 15.2 |
| 1926 | 281.7 | 125.8 | 44.6 | 15.3 |
| 1927 | 299.8 | 132.6 | 44.2 | 15.5 |
| 1928 | 319.3 | 145.5 | 45.6 | 17.3 |
| 1929 | 348.2 | 148.7 | 42.7 | 17.2 |
| 1930 | 324.2 | 123.8 | 38.2 | 16.7 |
| 1931 | 335.9 | 112.2 | 33.4 | 21.7 |

Source, *Dirección General de Estadística de la Nación*, Boletín No. 209, pp. 19 and 36.

CHIEF SOURCES OF THE NATIONAL REVENUES

Millions of paper pesos

| | 1913 | 1914 | 1915 | 1916 | 1917 | 1918 | 1919 | 1920 |
|---|---|---|---|---|---|---|---|---|
| Customs—import duties | 199.2 | 118.4 | 94.9 | 104.9 | 96.7 | 88.5 | 111.3 | 160.2 |
| Customs—export duties | ... | ... | ... | ... | ... | 50.9 | 68.3 | 96.8 |
| Internal revenues—alcohol. | 18.2 | 9.2 | 10.0 | 8.5 | 8.6 | 9.5 | 11.9 | 15.2 |
| Tobacco | 28.9 | 26.1 | 32.9 | 30.0 | 32.7 | 36.4 | 41.4 | 45.1 |
| Alcoholic drinks. | ... | 6.1 | 8.2 | 6.8 | 6.5 | 8.5 | 10.5 | 14.0 |
| Beer | 5.3 | 3.9 | 3.4 | 3.6 | 3.6 | 3.0 | 5.5 | 5.8 |
| Matches | 4.3 | 3.8 | 4.2 | 3.5 | 3.5 | 3.6 | 3.7 | 4.1 |
| Direct taxes, land taxes | 5.9 | 5.9 | 6.1 | 6.3 | 6.5 | 7.1 | 7.2 | 7.3 |
| Patents | 4.1 | 3.9 | 3.9 | 3.4 | 4.6 | 6.6 | 6.7 | 8.2 |
| Stamped paper. | 16.3 | 13.4 | 11.2 | 11.4 | 13.0 | 18.1 | 25.0 | 28.5 |
| Fees—mails | 12.5 | 11.3 | 11.4 | 11.7 | 11.4 | 12.2 | 13.7 | 15.9 |
| Telegraphs | 4.6 | 4.2 | 4.1 | 4.4 | 5.3 | 5.6 | 6.0 | 7.0 |
| Port charges | 6.2 | 5.0 | 4.0 | 3.6 | 2.5 | 4.5 | 5.7 | 9.5 |
| Freight handling. | 8.4 | 6.7 | 5.9 | 5.4 | 5.8 | 7.3 | 10.1 | 12.4 |
| Various lotteries. | 10.0 | 8.8 | 8.5 | 8.9 | 9.7 | 10.9 | 11.4 | 12.0 |
| Sanitary charges. | 4.7 | 4.7 | 5.1 | 5.1 | 5.1 | 5.1 | 5.1 | 5.1 |
| Provincial debt service | ... | 3.9 | 1.0 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 |
| Total | 360.2 | 262.7 | 240.4 | 244.0 | 239.8 | 308.5 | 382.7 | 496.4 |

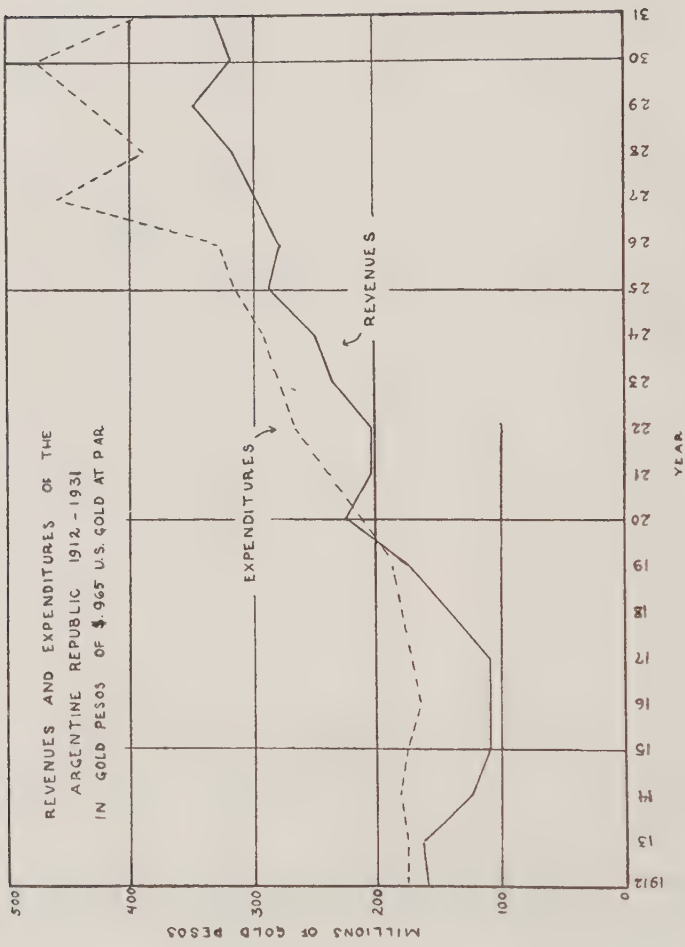
Data taken from Soares, *op. cit.*, I, 73-75; II, 175-177.

exports the prices of which exceeded a fixed minimum. The yield was some 50,000,000 paper pesos in 1918, almost 100,000,000 paper in 1920—sums insufficient to cover the treasury deficit.[22]

Expenditures rose little above pre-war levels up to 1920, an unusual occurrence for Argentina, and rather remarkable in face of the rising price level.[23] Declining

[22] Soares, *op. cit.*, II, 132-134 for a summary of the law.

[23] Cf. Chart IV of Revenue and Expenditures on following page, and table on page 73.




Source, *Dirección General de Estadística*, Boletín No. 209, p. 36.

CHART IV.

REVENUES, EXPENDITURES AND DEFICITS OF THE ARGENTINE REPUBLIC, 1913-1931

Millions of gold pesos

| Year | Revenues | Expenditures | Deficit |
|---|---|---|---|
| 1913 | 163.2 | 177.5 | 14.3 |
| 1914 | 124.2 | 184.6 | 60.4 |
| 1915 | 111.4 | 176.0 | 64.6 |
| 1916 | 112.2 | 164.8 | 52.6 |
| 1917 | 111.9 | 171.4 | 59.5 |
| 1918 | 145.2 | 185.3 | 40.1 |
| 1919 | 180.9 | 188.3 | 7.4 |
| 1920 | 228.4 | 214.6 | 13.8 * |
| 1921 | 205.0 | 246.5 | 41.5 |
| 1922 | 203.8 | 270.4 | 66.6 |
| 1923 | 241.7 | 278.2 | 36.5 |
| 1924 | 250.4 | 295.3 | 44.9 |
| 1925 | 291.5 | 313.9 | 22.4 |
| 1926 | 281.7 | 328.2 | 46.5 |
| 1927 | 299.8 | 461.5 | 161.7 |
| 1928 | 319.3 | 389.2 | 69.9 |
| 1929 | 348.2 | 435.9 | 87.7 |
| 1930 | 324.2 | 481.6 | 157.4 |
| 1931 | 335.9 | 389.9 | 54.0 |

* Surplus.

revenue, combined with the difficulties of arranging an accumulating deficit, undoubtedly were spurs to economy. Those fiscal students who advocate a slight deficit as a means of insuring careful spending will find something here to support the idea. The deficits were not in themselves very serious. They totaled something less than 300,000,000 pesos gold for the entire period, a debt not at all impossible or even difficult, for a nation such as Argentina to bear; even though it could not be dealt with in the normal way by the issue of negotiable forms of debt.

The present distress of the national treasury finds its origin in the ineffective handling of this accumulated deficit and in the inertia of the government in taking action to prevent its increase. When correction would have been easy the legislators vacillated; when diffi-

culties forced them to act, as little as possible was done. The war episode is of further interest as illustrating the manner in which the capital exporting center of the world was shifted for a time at least from Europe to the United States, and how satisfactorily the substitute was able to play the rôle of world's banker in regard to one of its chief debtors.

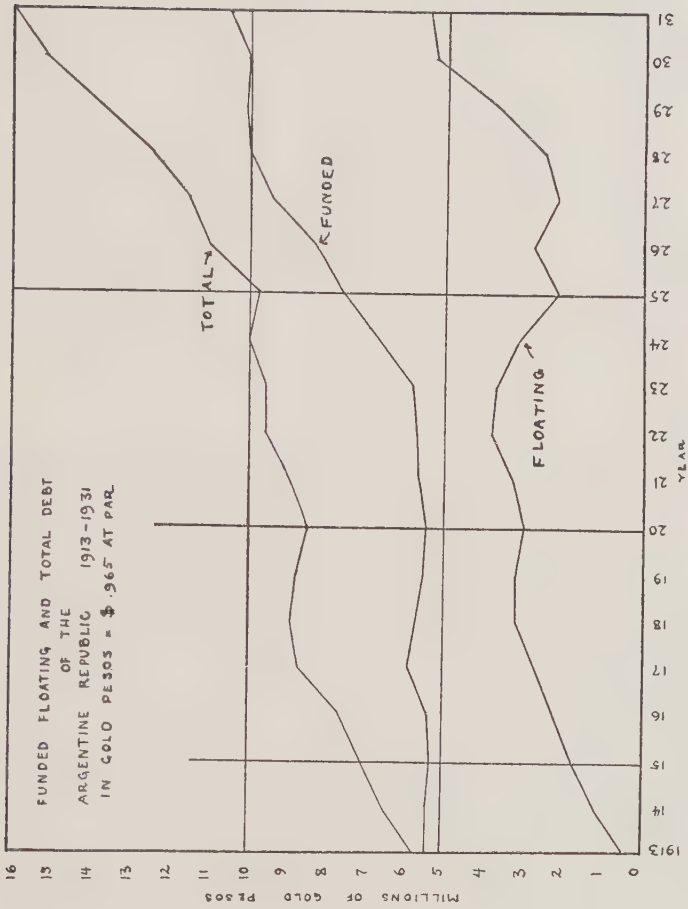
The actual increase in the national debt was less than the 300,000,000 gold mentioned above because cumulative amortization on outstanding loans is included in the expenditures. Very little of the increase was funded, but was carried in larger quantity in the form of bank credits and short term notes, as appears from the table following and Chart V.

ARGENTINE FUNDED, FLOATING AND TOTAL DEBT

In millions of gold pesos

| Year | Total funded debt | Floating debt | Total debt |
|---|---|---|---|
| 1913 | 544.7 | 41.35 | 586.1 |
| 1914 | 545.0 | 112.77 | 657.8 |
| 1915 | 537.6 | 185.9 | 723.5 |
| 1916 | 546.7 | 226.95 | 773.7 |
| 1917 | 595.4 | 276.1 | 871.5 |
| 1918 | 578.2 | 313.0 | 891.2 |
| 1919 | 565.5 | 323.2 | 888.7 |
| 1920 | 553.3 | 300.2 | 853.5 |
| 1921 | 562.2 | 327.9 | 890.1 |
| 1922 | 569.7 | 392.8 | 962.5 |
| 1923 | 578.9 | 384.8 | 963.7 |
| 1924 | 670.4 | 328.6 | 999.0 |
| 1925 | 768.1 | 213.5 | 981.6 |
| 1926 | 812.2 | 288.4* | 1100.6* |
| 1927 | 948.4 | 220.1* | 1168.5* |
| 1928 | 998.0 | 253.3 | 1251.3 |
| 1929 | 1010.2 | 380.9 | 1391.1 |
| 1930 | 995.6 | 522.1 | 1517.7 |
| 1931 | 1055.9 | 543.1 | 1599.0 |

* Tentative figures.




Compiled from various sources.

CHART V.

## VII. ATTITUDE OF THE UNITED STATES

Argentine securities were not entirely unknown in the American money market in 1914. One-fifth of the £10,000,000 internal loan of 1909 had been successfully floated in New York, through the banking house of J. P. Morgan and Company.[24] But no other Argentine securities had been publicly sold in the United States, and it is improbable that any large amounts of the European offerings had found their way into American hands. More than likely the flow was the other way; London bankers were indisposed to include New York in their offering syndicates, because American investors were inclined to sell out at a favorable opportunity [25] returning the bonds to Europe and depressing their market.

Only ten foreign government bonds were listed on the New York Stock Exchange in 1914, and their market was very quiet. To our investing public at that time "foreign" meant chiefly Canada, Cuba and Mexico. The Argentine Internal 5's of 1909 were the only South American national government bonds quoted; that they stood in good favor may be inferred from the price range, which for the years 1913 and 1914 was between 95 and 99⅛.[26]

[24] *Commercial and Financial Chronicle*, March 6, 1909, p. 639. The loan was for railway and bank capital and other public works. J. P. Morgan & Co, the First National Bank, and the National City Bank placed the issue, which was also successful in Europe.

[25] A. Emil Davies, *Investments Abroad*, pp. 45, 46

[26] In January, 1909—£200,000 of a £15,000,000 5 per cent ten-year loan of the State of São Paulo, Brazil, was offered by Sutro Brothers and Company of New York at 96½, and the bonds were subsequently listed in New York. These São Paulo bonds were the only other South American bonds quoted in New York. The Argentine Issue of 1909, known as the Internal Gold Bonds of 1909 were payable in gold pesos or pounds sterling, dollars, francs or marks at a fixed rate of

In 1914 the United States came to a new realization of the possibilities of South-American trade. Declining European markets and an insufficient supply of manufactured commodities spurred the Latin-American countries to seek a new outlet in the United States, then only too eager to fill the office. Merchants and manufacturers proclaimed the discovery of a new world, and demanded banking and transportation facilities to exploit it. "Continental Solidarity," the "Fraternity of the Americas," and the "Common Destiny" became familiar terms in diplomatic circles, while the ninety day note and the need for a liberalized American credit system were discussed in commercial groups.[27]

The American government echoed the enthusiasm of the public. Its first great bid for closer economic ties with Latin America was made in the Pan-American Financial Conference of 1915. Finance ministers and bankers of all the Americas were invited to confer with selected representatives of the United States, "with a view of establishing closer and more satisfactory financial relations between their countries and the United States," as the bill authorizing the conference set forth.[28] Secretary of the Treasury McAdoo, the leader in the proceedings because of his official position, suggested "Public Finance" as the first topic for discussion.[29] In the course of the proceedings representatives of each nation, except the United States, outlined its financial needs, after which these matters were dis-

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exchange, a proviso which benefited European holders during and after the war, and which also guaranteed a fairly even price in all the world capital markets.

[27] Cf. J. F. Normano, *The Struggle for South America*, pp. 101-105.

[28] "Proceedings of the First Pan-American Financial Conference," May 24 to 29, 1915, Washington, 1915, p. 7.

[29] "Proceedings," pp. 25, 26.

cussed informally in committee meetings limited to the agents of one particular country and a small group of the American delegates, among whose numbers were many bankers.

The International High Commission, a body designed to bring about uniformity of commercial laws, as well as numerous resolutions for extended banking and shipping facilities, resulted from the Conference. More than this the enthusiastic convocation of the Conference, and the cordial popular reception given the visiting delegates indicated a hopeful and sympathetic attitude toward Latin-American economic relations. The United States Government was most friendly to the movement, and no effort was spared in bringing responsible officials of our continental neighbors into close contact with New York's financial leaders. Favorable publicity attended the entire movement. Stamped with official approval, and supported warmly by leading bankers and industrialists, the extension of economic support to our southern friends was considered an almost patriotic contribution. In a word, the public was sympathetic; and though investors might be skeptical, a market was made possible.

Before 1914 the American investor knew little of South America, and there was no serious interest in its products or markets. Nevertheless, the War itself was not alone responsible for the change. Trade between Argentina and the United States had begun to show marked increases even before 1914. That which actually occurred might be set forth in the statement that our connections with South America were not spontaneously a result of the War; but rather that a movement already begun was greatly stimulated by the course of events in Europe.

## VIII. WAR BORROWING

With the bare outline of constant deficits and increasing floating debt in mind, we can now examine at closer hand the details of the period from 1914 to 1920. For some years prior to 1914 the Argentine Federal Government had been increasing its expenditures for public works, especially sanitary works, with the expressed object of bringing to the smaller cities of the country facilities which they would have been unable to obtain without the aid of federal credit. In 1913 contracts had been let for such works to the amount of approximately $40,000,000. The government intended to advance the funds when required by the contractors from Buenos Aires banks, and when the debt had grown to sufficient proportions, to fund these bank advances into a long term loan, for which the London money merchants would presumably be glad to bid, as theretofore. Toward the end of 1913 the Finance Minister opened negotiations for a loan. He found the London market unreceptive, and reported that he was unable to get even a £3,000,000 advance on reasonable terms.[30] In the end 6 per cent, an unaccustomed rate, had to be paid for a one year advance of this amount. The government refused to fund its obligations upon these terms, insisting that it should be required to pay less than 5 per cent on a long term issue.[31] Internal 5 per cent bonds were at the time selling for 90 per cent in Buenos Aires, but were rapidly falling. The idea was never entertained by the government of floating the issue there, and efforts were continued to obtain a foreign loan. Finally one for $80,000,000 gold pesos was

[30] *Economist,* 1914, I, 292.

[31] The Finance Minister said that a $50,000,000 gold peso loan at a coupon rate of 4½ per cent, priced at 94⅛ per cent, the terms of the 1911 loan, would be acceptable.

contracted with London bankers. The loan was contracted for in June, 1914, but when on September 15, payment of an installment from the bankers came due, they were unable to make it. An advance of £5,000,000 for one year was the most that could be obtained, and in the meantime, the costs of the Sanitary Works went on.[32]

These temporary facilities were insufficient for the government's needs. By October 1, 1914, its account at the Bank of the Nation, limited by charter to 20 per cent of the bank's capital, was overdrawn by 20,810,-662 m/n beyond a 72,000,000 m/n limit. Early in 1915 payments to public works contractors began to be made with four month 5 per cent Treasury bonds.

Some relief was obtained by a small $15,000,000 loan arranged in December, 1914, in the form of one, two and three Treasury notes for equal amounts, costing the government something over 6 per cent.[33] The National City Bank made the loan over the weak competition of British houses, just after its new branch in Buenos Aires, the first foreign branch of an American bank, had been opened.[34] A strong syndicate was

[32] The City of Buenos Aires also had difficulties resulting from the War. A loan of £2,460,300 was taken by Baring, but only half the proceeds were remitted on the ground that the German banks had not sent in their share. The bankers, however, required full service charges on the loan, and a British Court later found this procedure justifiable.

[33] The proceeds were used chiefly for the service of the foreign debt, and the balance was shipped to Argentina in gold. *Economist*, 1915, I, 626. Another unexpected source of income at this time lay in the sale of warships constructed in France. They brought twice their cost; but the government would not sell two dreadnoughts just built in the United States, an act which would have greatly relieved its difficulties.

[34] Foreign branches were made possible by the provisions of Section 25 of the Federal Reserve Act. This one was probably

formed to dispose of this comparatively small offering, and little difficulty was experienced. The resulting gratification only serves to show how small the capital-supplying powers and interests of the United States were supposed to be when directed toward an object outside its own borders. Favorable glance had not yet been turned southward except in isolated cases. The New York Chamber of Commerce, some of whose later references to South America were far from unkind, advised American finance to go slow in that continent. Lloyd George suggested the impropriety of advancing more funds to a nation which already owed England £400,000,000 and was unable to pay.[35] The first half of 1915 witnessed a great development of South America consciousness encouraged by the persistent optimism of the Pan-American Union, and increased by visions of greater profits in an already rapidly expanding commerce. The Pan-American Conference was in accord with the spirit of the times; very little opposition to financing Latin America was felt or expressed thereafter.

Two short term sterling issues for £5,000,000 and £3,000,000, coming due respectively in December, 1915, and September, 1915,[36] presented the greatest perplexities to the Argentine treasury. Credit was extremely

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planned before the outbreak of the War, judging from the time of its establishment. In 1917 the First National Bank of Boston opened a branch in Buenos Aires, and these were the only two United States banks.

[35] New York *Times,* January 12, 1915. In the March 27, 1915, issue of the *Times,* an editorial comments favorably on the Argentine loan; "Besides lending bank credit we shall have to open our capital markets to South American securities. That we have never thought of doing."

[36] Arranged with Baring Brothers for £5,000,000 and the London City and Midland Bank for £3,000,000 in 1913. The £5,000,000 loan was renewed once; cf. *Economist,* 1915, I, 1123.

restricted in Buenos Aires, and it appeared that such sizable sums could not be obtained from the hard pressed banks without some form of inflation. In any event no funding could be done internally; the internal 5 per cent bonds were at 87 early in 1915, in a soft market; the offer of another issue would certainly depress that price. In the meantime the situation was also becoming more acute in London. On January 19, 1915, restrictions were placed on the money market, prohibiting capital issues for entities outside of the Empire, and requiring a permit for those inside, unless the issue was for refunding purposes.[37] Argentina's close connection was admitted inasmuch as her railways (British) were permitted to borrow.[38] But the Argentine government did not stand in such a favored position. It could borrow only by special permit issued under the refunding provision, limiting the amount of its borrowings to the £8,000,000 already outstanding. In spite of the obvious tightening of the market, treasury officials rejected bids made early in 1915 by European and American bankers, postponing until May their acceptance of an offer to purchase $50,000,000 of five year Treasury Bonds. This was the only satisfactory way the foreign floating debt could be handled unless the treasury was willing to pay the higher price of funding into long term bonds. Baring Brothers and Company took half for flotation in England and J. P. Morgan and Company with the National City Bank of New York, Kuhn Loeb and Company, and the First National Bank of New York took the other half.[39] Of the United States portion $15,000,000 was to

[37] *Ibid.*, p. 363.

[38] *Ibid.*, p. 899. According to the report to Lord d'Abernon's committee in 1930, two-thirds of railway mileage is British owned.

[39] The loan cost Argentina slightly over 7 per cent per annum and was sold to yield a shade over 6 per cent. Cf. table on pages 98-99 for details.

be sent to London to cover maturing obligations, and $10,000,000 was left at the disposal of the treasury. The offering in London resulted in complete failure, only 12 per cent of the bonds having been sold,[40] but the bankers had a five point spread, which should have been sufficient to cover any loss. In the United States the flotation was successful, in spite of some uncertainty in the money market caused by the Lusitania affair. The bonds carried one feature which was to add to their value later: two years after date of issue they could be freely converted from dollars to pounds or vice versa, at the par of exchange.

The entire operation was a compromise. The Argentine considered that its credit was being unjustly evaluated, and simply would not pay the price necessary to settle the debt permanently, preferring to gamble on the duration of the War and the possibility of improved conditions. This loan was the largest one negotiated by the government during the War. It marked the last time a neutral power attempted to raise money in London, and the results clearly showed that if there was to be any financial help for these countries, it must come from the United States.[41]

If the immediate difficulty was solved, the underlying ones were not. The budget remained unbalanced, public works continued to cost the government more

[40] The loss was ascribed to the fact that many of the notes to be redeemed were held in Germany, and after the Lusitania sinking no one wanted to subscribe money which would go to Germany. Moreover, if a loan is not attractive to the British investor, he waits until the syndicate sells out, which it ordinarily does quickly in England, sacrificing its holdings instead of hanging on for two or three months as they do in the United States. New York *Times*, May 14, 1915.

[41] An inspection of the *Economist's* capital issue charts shows that this was the last attempt of a neutral country to raise money in London.

funds than it could find, and the revenues continued to decline. Congress showed a reluctant attitude toward tax reforms, an exceedingly delicate matter with 1916 an election year.[42] It having become perfectly obvious that no fundamental budget changes would be accomplished within a year or more, a definite borrowing policy was formulated. The Finance Minister had found increasing ease in placing the debt locally; the balance of trade had turned in favor of Argentina, and the Buenos Aires money market had improved. It was thought that the deficits could be absorbed by Argentine banks until the long term issues could find a market at 5 or 5½ per cent. In the meantime, a loan of approximately $6,000,000 was raised through the National City Company for service of the foreign debt.[43]

Early in 1916 it became profitable to ship gold from New York to Buenos Aires, that is, the paper peso rose over its gold value, a somewhat unusual phenomenon for an inconvertible currency. Gold imports tended further to ease the Buenos Aires market. But money was also becoming cheaper in New York. In February, 1916, $18,500,000 one year Argentine Gold Notes were sold to Hallgarten and Company and a group of associates, who offered them to yield 4.70 per cent, the lowest rate obtained up to that time. A few days later

[42] The story of the Argentine budget from 1914 to 1930 is one of monotonous inactivity. During this entire period, no extensive modifications were made; cf. Department of Commerce—Trade Information Bulletin, No. 497, pp. 1-8. The expedient of overestimating future revenues in order to balance the budget was common.

[43] It was announced at the same time that "if conditions are favorable, a large bond issue will be brought out in the United States, before the maturity of the loan just floated." Apparently the nation expected its credit to rise so rapidly that it would be profitable to call the $50,000,000 five-year bonds outstanding at 101 per cent, as their contracts provided.

another one year loan for $15,000,000 was arranged through the Guaranty Trust Company and was offered to yield 5 per cent. In less than three months Argentina had used three different bankers, a direct result of the policy of asking competitive bids for prospective issues, and one encouraged, too, by the alacrity with which the invitations were accepted.

Throughout 1916 Argentina was more or less continuously sounding the market, awaiting the best opportunity for floating a large loan, into which it was hoped that not only the five year bonds, but also a part of the other short term indebtedness might be consolidated. Constant renewals of the floating debt, especially in view of its continued increase, was an expensive and dangerous policy. The banking costs incidental to handling the renewals used up the margin between the rates of long and short term issues. If the market should suddenly decline, moreover, a heavy short term debt would prove seriously embarrassing for the treasury, and would be a tremendous spur to inflation.

Politics were largely responsible for the final outcome of the financial plans of the war period, as they have been for the morass into which the Argentine has now fallen. Prior to the elections of 1916 the party in power was unwilling to take any definite steps regarding either balancing the budget or regularizing the form of the debt. So interested were the representatives in their electioneering that they had to be threatened with arrest before a quorum could be gathered in the Chamber of Deputies.[44] There was little prospect of financial reform from such a group. On the accession of Hipolito Irigoyen to the presidency in October, 1916, a vigorous effort was launched to fund the floating debt into a 250,000,000 gold peso loan, which would certainly have

[44] *Economist*, 1916, I, 265.

been accomplished, had not the inertia of the Congress delayed the final passage of authorization until long after the United States had entered the War. When the new president took office, Argentine obligations in the United States amounted to nearly $80,000,000, and offers were immediately made to fund this amount with a surplus.[45] The New York market was strong through 1916, and it was deemed advisable to utilize the opportunity.

Protracted negotiations between the bankers and the government followed. Conversations were held sometimes in New York, through the Embassy, and sometimes in Buenos Aires at the branch banks there, "the financial embassies." A group of bankers especially active in the South American field, and customarily joining in a syndicate for such offerings, as in the case of the Five Year Argentine Treasury Notes of 1915, were active in the negotiations.[46] In spite of a good market, and hence supposedly favorable offers, the loan continued to hang fire. After two months of bickering, renewal of a short term loan for $5,000,000 had to be patched up almost on the very eve of its due date.[47]

[45] The internal floating debt was not becoming large enough to cause apprehension. In October the short term debt was 356,661,955 m/n, of which 182,000,000 was external, and the rest held by Buenos Aires banks.

[46] The "South American Group" consisted of The National City Bank, The Guaranty Trust Company, J. P. Morgan and Company, Kuhn Loeb and Company, Harris Forbes and Company, and Lee, Higginson and Company. According to the *Times* of October 25, 1916, the operation had gone so far that "the syndicate was expecting an offer from its representatives in Buenos Aires accepting its offer for a loan, . . . ." which was expected to be for sixty-five to seventy-five millions of dollars.

[47] In the *Economist*, 1916, II, 1001, it is said that The National City Bank offered a 6 per cent funding loan at 98. The hurried negotiations referred to came in December, 1916, when Series B of

Bankers attributed failure of the negotiations to the fact that the government had been in cable communication with two groups, with the apparent purpose of playing one against the other, but with the result that each threatened to withdraw.[48] Again it was said that the difficulty resulted from the fact that " the idea entertained by representatives of the Argentine Government regarding short term obligations does not coincide with that held by American bankers, and this difference of view point is responsible for the delay in coming to an agreement. . . . ." [49] The real crux of the matter was that the government lacked legislative sanction for a loan, and Irigoyen, a man who wanted to gather all power into his own hands at any cost, was being thwarted by the Congress at every turn. He would apparently make no concessions to obtain the authorization, but preferred to float the loan as a short term issue, for which no authorization was required.[50] The bankers were unwilling to extend the maturity, and since authorization for permanent financing was not forthcoming, no agreement was reached.[51]

At this time a combination of forces tended to discourage further Argentine loans in the United States. The vaguely hinted misunderstandings and disagree-

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the 1914 Gold Notes fell due. Morgan and Company announced at the same time that funding plans were under way; cf. *Commercial and Financial Chronicle*, 1916, II, 2194.

[48] New York *Times*, December 8, 1916.

[49] *Ibid.*, November 3, 1916.

[50] Again in 1921 Irigoyen insisted that Congressional action was not necessary for a loan; but the bankers would have none of it. The New York *Times*, December 29, 1921.

[51] Among those interested in its success were the Chicago packers, the largest of whom have plants in the Argentine and who were in favor of permanent financial connections in order to finance the importation of beef. New York *Times*, November 19, 1916.

ments between the banking and government representatives undoubtedly constituted a minor factor. Of more importance was the increasing tightness of the money market as it became more probable that the United States would enter the War. The New York money market was also subject to severe competition for money at this time. The Allied loans were a burden added to the large demand incident to an expanding business, and American securities were being returned in large amounts from distressed European holders.[52]

The Buenos Aires money market was comparatively untouched because of lack of organization. When at the beginning of 1917 heavy gold shipments [53] from New York to Buenos Aires failed to keep the peso down to par, the desirability of borrowing in New York diminished. In February, 1917, Hallgarten and Company refused to renew their $18,500,000 loan. To meet this, various banks of the Argentine capital subscribed 42,000,000 m/n.[54] The government was hard pressed at the time, and was forced to renew even small short-time loans at $6\frac{1}{2}$ per cent.[55] The crop failure of the season 1916-1917 was now fully apparent, and did nothing to improve banking conditions, in spite of the favor-

[52] Statements of the tendencies toward inflation and high borrowing rates in all neutrals, because of belligerent financing, are familiar enough to need no repetition here.

[53] These gold shipments went to private banks, and not to the Conversion Office, so that they could be re-exported if need be.

[54] *Economist,* 1917, I, 587. Relations with Germany were broken at this time, ruining the market.

[55] *Economist,* 1917, II, 659. The government was still paying its debts in bonds, or not at all, and resisted as much as possible the collection on its notes. Partial renewals for very small amounts were used to postpone the evil day—picayune operations unworthy of a great nation.

able balance of payments indicated by gold imports. Through 1917, short term loans in the United States were paid off at maturity, except for some short renewals. At the end of the year only the $25,000,000 five year issue was outstanding, that is about $55,000,000 in notes had been retired.

There was no exchange problem involved in the repayment. Both the peso and dollar were for most of the time off gold; the peso was at a premium, and the treasury made a profit on the transaction.[56] But the placing of the loans was no such simple thing in a limited market.[57] A good face was nevertheless presented; it was announced that the loans had been taken by local banks at $5\frac{3}{4}$ per cent. In August, 1917, the finance minister, in an interpellation, admitted that the government was overdrawn at the Bank of the Nation by $73,700,000 m/n on April 12, but that by August 3, this had been reduced to $49,300,000 and that $219,900,000 had been borrowed from the banks. On October 1, a $15,000,000 maturity was met in New York, and in the middle of November, a $35,700,000 paper loan, approximately its equivalent, was obtained from the banks, at $5\frac{1}{2}$ per cent, for six months. The procedure was to pay off the loan by an advance from the Bank of the Nation, practically an emergency overdraft, and then to place an equal amount of government notes with the Buenos Aires banks, thus regularizing the situation.[58] In 1917, because of the small harvest,

[56] There was 5,000,000 m/n net profit on the repayment.

[57] Salaries of public employees had to be suspended in order to meet a one-third installment on $16,800,000 due June 15, 1917; *Economist,* 1917, II, 163.

[58] The Bank of the Nation advanced 68,090,000 m/n to pay off the United States loans whose amount had been computed at 73,000,000 m/n the difference resulting from the peso premium being a profit for Argentina. *Memoria de Hacienda,* 1919, I, liv.

all of the bank's resources were not being used, and government paper would have been quite acceptable had there existed any prospect of its redemption. But it was generally recognized that such a large amount could not be funded in the Buenos Aires market, nor could it be paid off out of any expected surplus. The notes would be an outright investment, imposing a distinct handicap when the demand for funds grew keener. There was some suspicion attached to the reputed ease with which the banks accepted the notes.[59]

Almost in the beginning of 1918 Argentina entered upon an entirely new rôle, by agreeing to a proposal of Secretary of the Treasury McAdoo to stabilize dollar exchange with regard to the peso, and to avoid excessive depreciation of the dollar in Argentina.[60] Debtors in the United States were to deposit their funds with the Argentine Ambassador, who in turn was to place them in current account at the Federal Reserve Bank of New York, where they would remain until after the peace treaty. A limit of $40,000,000 U. S. was set for the credit. This amount was exhausted by March, 1918, and $20,000,000 more was granted in May of the same year.[61] Immediately afterward a credit of 200,000,000 gold pesos was extended to En-

[59] *Economist,* 1917, II, 18. In the *Memoria de Hacienda,* 1919, p. lv, the executive makes some pertinent remarks about the funded debt, in which after admitting the difficulty of floating an internal loan, and the avoidance of a currency issue except as a last resort, he expressed the opinion that the prevailing great prosperity might facilitate the flotation of an internal loan. There followed an elaborate plan for a 250,000,000 gold peso loan, which could never be issued, and a project for a central bank, the *Banco de la República,* p. lxi, etc.

[60] *Commercial and Financial Chronicle,* 1918, I, 129.

[61] *Ibid.,* 1918, I, 1952. Gold could also be held in the United States Legation, in addition to the amount of this credit, in which event it could be freely exported.

gland and France, at 5 per cent, but limited to twenty-four months duration, unless extended by mutual consent.[62] Drafts upon the credit given the United States were counted as gold reserves, upon which the Bank of the Nation expanded its credit by 260,000,000 gold pesos, an amount but slightly smaller than the floating debt.

The government remained constantly in need of money, and from 1917 on entertained the most fantastic proposals for obtaining it.[63] No large funding loans were attempted; but the prices of internal bonds fell consistently through 1918 and 1919, chiefly because the selling of bonds and cédulas by European investors was made profitable by the high exchange rate of the peso.[64] Short term borrowing on the other hand was neither very troublesome nor expensive, renewals being made at a 5 per cent average rate for six month notes. After the end of the war the idea of an internal loan was definitely abandoned for a prospective long term issue in New York. Gold imports had been accelerated

[62] *Commercial and Financial Chronicle,* 1919, I. No currency was issued against this credit. Uruguay also lent $50,000,000 Uruguayan pesos to the Allies.

[63] Compare footnote 59.

[64] Internal bonds fell from 90 early in 1918 to 77 per cent in October, 1919, and declined thereafter to yield 7 to 8 per cent. *Economist,* 1920, I, 145. Through 1919 and part of 1920 an allied credit of 200,000,000 gold pesos was projected, but it never passed, largely because of the objections of the anti-inflationist party, since currency was to be emitted up to the amount of the credit, and because crops sold well without the operation. Tornquist in his *Balance of Payments for the year October 1, 1919–September 30, 1920,* estimates that 150,000,000 gold pesos of capital were repaid by Argentina in that year, either through repurchases of government bonds, or of mortgages and other debts, or by subscriptions to Allied loans. Government bonds began to be presented for service in Buenos Aires in 1919; cf. *Memoria de Hacienda,* 1919, I, 183.

since the Armistice and money was easy. The lack of financing machinery, the absence of issue houses and an investing public, discouraged any attempt at a large internal loan.

In December, 1919, Irigoyen's Finance Minister, Domingo F. Salaberry, left for the United States, both as a delegate to the Pan-American Congress and as an agent in search of a loan. It was freely rumored that a $300,000,000 loan had been offered on favorable terms by United States banks;[65] but there was one objection. Since the free export of gold had been permitted by the United States a great deal had been shipped to Argentina; but the peso stayed above parity through 1919 and the first half of 1920. The flotation of a loan for Argentina would have simply meant an increase in the volume of these shipments, a possibility not pleasurably anticipated by the guiding powers of American finance. On January 23, 1920, Secretary of the Treasury Carter Glass made a statement implying disapproval of loans like that projected for Argentina:

> During the war the United States Government was unwilling that foreign governments should compete with it. Latterly, the attitude of the Treasury had been favorable to the issue, under proper safeguards, in our markets of sound investment securities of foreign governments, and of states, municipalities and private borrowers, when emanating from those countries with which the international exchange is favorable to the United States. . . .[66]

The last phrase could not have been more carefully aimed at Argentina. It enjoyed at that instant a favorable exchange with every nation; and every currency was at a discount on the peso. The bankers caught the signal, or perhaps it was made more plain to them. At any rate, when Dr. Salaberry went to New York on

[65] *Commercial and Financial Chronicle*, December 6, 1919, p. 2213; *Economist*, 1920, I, 145.

[66] *Commercial and Financial Chronicle*, January, 1920, p. 414.

January 31, 1920, to discuss the matter with the Morgan Group and another led by the Mercantile Bank of the Americas, he was able to get no offers, in spite of Argentina's strong commercial position. It was carefully pointed out by the financial press that $56,000,000 in gold had been shipped to the Argentine since January 1, 1920, and that a balance of $70,000,000 still remained in New York, while the balance of trade still favored Argentina.[67] On the basis of the secretary's suggestion the bankers rejected the Argentine business which they certainly wanted to retain.[68] Dr. Salaberry, surprised and chagrined at this turn of affairs, left for England in March. Eventually it was arranged that Great Britain would liquidate half of its 100,000,000 gold peso debt to the Argentine by meeting the maturing five year notes in New York, where all of them had since been drawn by comparative exchange rates.[69] So the last Argentine war loan was retired from the United States, leaving the board as blank as it had been in 1914, and with the Buenos Aires press promising to do its best to keep it so.[70]

With the prospect of foreign help gone, the Buenos Aires market also developed extreme tightness, assignable to a heavy floating debt, subscription to Euro-

[67] *Commercial and Financial Chronicle,* 1920, I, 1137.

[68] New York *Times,* May 15, 1920. According to the *Times* writer, the frustration was entirely due to treasury officials, as anyone must conclude. The other absurd angle of this affair is that loans made to countries having depreciated currencies must be considered in general the poorest risks; apparently the element of safety never occurred to the learned officials.

[69] British holders gained $1.05 per pound by redemption in New York. The agreement was signed April 17, 1920. *Memoria de Hacienda,* 1920, I, civ.

[70] New York *Times,* April 22, quoting *La Razon,* a Buenos Aires daily of wide circulation.

pean loans, and market stagnation. Internal 5 per cent bonds fell to the unprecedented low of 63, in the most unfavorable market in years, and prospects for national financing became dismal. But the worst was yet to come. In May, 1920, Argentine deposits in New York began to be released by the paying in of currency in Buenos Aires, indicating that the balance was swinging the other way. By June 14, $19,600,000 had been released, and with the restriction policy of the Federal Reserve in full progress, the gold releases proceeded at a swift pace. By July 17, with $25,000,000 of the original $70,000,000 balance remaining, the government suspended further withdrawals,[71] and the exchange value of the peso dropped abruptly. The decline in prices fell heavily on the Buenos Aires importers. Goods in transit lost half their value on the way and great quantities of imported merchandise were rejected.[72] The price decline was especially great in cereals, meats and other Argentine products, as was naively observed in a later *Federal Reserve Bulletin*,[73] in the form of the following table:

PRICE OF ARGENTINE EXPORTS, JANUARY, 1919, TO MARCH, 1921
(Chicago Prices)

| | Corn No. 3 | Wheat No. 2, red | Scoured N wool ½-⅝ grade | Beef carcass | Hides heavy native steers |
|---|---|---|---|---|---|
| Jan., 1919 ..... | $1.37 | $2.38 | $1.12 | $.245 | $.28 |
| May, 1920 ..... | 1.98 | 2.97 | 1.16 | .195 | .35 |
| March, 1921 .... | .618 | 1.68 | .53 | .16 | .115 |

The price collapse was not equally marked in Buenos Aires only because of the inconvertibility of the peso.

[71] *Commercial and Financial Chronicle*, 1920, I, 337.
[72] *Ibid.*, II, 1901.
[73] *Federal Reserve Bulletin*, May, 1921, p. 573.

The decline in exchange value took up some of the difference, but there were severe repercussions in the market. Money was simply not to be had, and the treasury quietly dropped its plans for a 7 per cent internal loan to be offered at 90, the appearance of which had been expected before the crash.[74] There was no longer any objection to Argentine flotations in New York on account of the loss of gold; the peso descended to some 66 per cent of par before it rebounded.

## IX. SUMMARY

Argentina was in need of funds during the war period for two reasons, first, because she was caught at the outbreak in the uncertain interval between the actual spending of funds for public improvements and the completion of a final borrowing operation to pay for them; and secondly, because the decline of international trade after 1914 had had a serious effect on the national budget, left uncorrected for political reasons. In order to handle the resulting floating debt, applications were made to the nation's old financial connections in London; but attempts to float a funding loan failed. Short term issues in the United States were made largely with the idea of awaiting the advent of more favorable terms, the Argentine being unwilling at first to pay what it deemed excessive rates for a funding loan. Later, when it had become reconciled to the idea of 7 per cent, the entry of the United States into the War made even that impossible. From 1917 until 1920 in fact, Argentina played the part of a creditor rather than a debtor nation, by reducing foreign obligations, and by lending $250,000,000 to the Allied nations.

[74] *Economist,* May 21, 1920.

There were two distinct periods in Argentine financial relations with the United States during the War; the first, from 1914 to 1917, when short term obligations were offered in increasing amounts until about $80,000,000 were outstanding; the second, from the beginning of 1917 until the end of 1920, during which time all of these short term loans were repaid, largely by reason of pressure exerted from official quarters in the United States. The following chart of Argentine floating debt outstanding in New York illustrates the above movement; it is inaccurate in that the £5,000,000 sterling issue of 1915, which by 1920 was largely owned by Americans, is omitted:

| Date | Amount outstanding |
|---|---|
| June 30, 1914 | ..... |
| December 30, 1914 | $15,000,000 |
| June 30, 1915 | 40,000,000 |
| December 31, 1915 | 41,000,000 |
| June 30, 1916 | 74,500,000 |
| December 31, 1916 | 80,300,000 |
| June 30, 1917 | 56,200,000 |
| December 31, 1917 | 25,000,000 |
| December 31, 1919 | 25,000,000 |
| June 30, 1920 | ..... |

At the end of 1916 about half of the floating debt was thus placed in the United States, and thereafter these short term loans were repaid from advances obtained from Buenos Aires banks, except that the $25,000,000 due May 15, 1920, was met by the British Government.

The loans ranged in time from four months to five years, and almost every type of short-term obligation was used. A single group of bankers headed by J. P. Morgan & Co. and the National City Company, practically monopolized the business; they headed the "South American Group" of 1914-1917. The amount of each issue was comparatively small, and they were

emitted in serial maturities. Interest rates varied over the three year period. The loans yielded the investor roughly 6 per cent per annum for one year advances in 1915, but only 5 per cent, and in one case as low as 4.70 per cent, in 1916, rising again in 1917 to approximately 6 per cent. The government itself, however, paid about 1 per cent per annum more because of the expense of flotation; so that the five year treasury bonds of 1915, for instance, cost the government a shade over 7 per cent per annum. Its minimum cost was slightly under 6 per cent per annum.

Very little was accomplished, it must be apparent, in the way of permanent results from Argentina's use of the New York money market. The connection was neither favorable as to its immediate needs, nor did it result in any permanent advantages as to obtaining better terms in the future. It is true that the borrowings were more advantageous than might appear, since they were made at a time when money could be obtained only with the greatest difficulty in Buenos Aires, and were repaid with funds taken from a constantly improving money market.[75] Acquaintance with Argentine securities in the United States in 1920 was nearly as limited as it had been in 1910; the investor class had not yet been touched. No advertising nor extensive publicity attended the offerings of these notes, and the market must have been narrow, in fact almost limited to bankers and their immediate clientele, a condition reminiscent of the London money market of a century before.

The American investor has never had the same knowledge of the Argentine that the Englishman enjoys. It is impossible because of the comparatively

[75] Except the 1920 loan, which was repaid under circumstances of increasing monetary tightness.

## ARGENTINE NOTES

Originally issued in N

| No. | Date | Title of issue | Bankers | Amount | Rat |
|---|---|---|---|---|---|
| 1 | December 15, 1914 | 6 per cent gold notes of 1914. | National City Bank, with Harris, Forbes & Co., and Guaranty Trust Company. | $15,000,000 in three equal series. | 6 per |
| 2 | May 15, 1915 | Treasury bonds of 1915.* | National City Bank, J. P. Morgan, First National Bank and Kuhn Loeb & Co. | $25,000,000 see under "remarks." | 6 per |
| 3 | December 28, 1915 | Banker's credit. | National City Bank, J. P. Morgan, First National Bank and Kuhn Loeb & Co. | About $6,000,000. | 6 per |
| 4 | February 21, 1916 | One year gold notes of 1916. | Hallgarten & Co., N. W. Halsey & Co., Kountz Bros. and A. B. Leach & Co. | $18,500,000. | Discoun basis yield per |
| 5 | March 1, 1916 | Discount notes for 12, 13 and 14 months. | Guaranty Trust Company of N. Y. | $15,000,000. | Discoun basis per yield |
| 6 | December 15, 1916 | Six month notes. | J. P. Morgan, National City Co., Kuhn Loeb, Lee Higginson & Co., The Guaranty Trust Co. and Harris, Forbes & Co. | $16,800,000. | Slightly over per |
| 7 | March 1, 1917 | Six month notes. | Same as above. | $5,000,000. | Discoun basis yield per |
| 8 | April 1, 1917 | Five month note. | Same as above. | $5,000,000. | Discoun basis per |
| 9 | May 1, 1917 | Four month note. | Same as above. | $5,000,000. | Discoun basis per |

* Purchase price 94.

## TREASURY BONDS

k, 1914-1919 inclusive

| Selling price | Due | Means of payment | Remarks |
|---|---|---|---|
| —100.<br>— 99½.<br>— 99½. | A—December 15, 1915.<br>B—December 15, 1916.<br>C—December 15, 1917. | A—Paid from proceeds of No. 3.<br>B—Redeemed by loan No. 6.<br>C—Redeemed with Argentine funds. | Redeemable at 101 on any interest date. |
| 99. | May 15, 1920. | Paid May 15, 1920, by British Government advance. | £5,000,000 of this issue was floated in London but came to U. S. during the war. Used to retire £8,000,000 sterling notes due in 1915. |
| lo issue. | June 28, 1916. | See "Remarks" column of loan No. 6. | Used to redeem Series A, gold notes of 1914, and pay their service charges. |
| ..... | February 21, 1917. | Redeemed when due by funds advanced from Argentina. | |
| ..... | A—March 1, 1917.<br>B—April 1, 1917.<br>C—May 1, 1917. | Renewed for 6, 5, and 4 months respectively, and redeemed with Argentine funds, October 1, 1917. | |
| o public offering. | June 15, 1917. | $11,200,000 renewed for ninety days, June 15, 1917, balance paid with Argentine funds. | Used to redeem Series B of loan of December 15, 1914, and banker's credit of December 28, 1915. |
| o public offering. | October 1, 1917. | Paid with advances from Argentina. | To retire Series A, loan No. 5. |
| ..... | October 1, 1917. | Paid with advances from Argentina. | To retire Series B, loan No. 5. |
| ..... | October 1, 1917. | Paid with advances from Argentina. | To retire Series C, loan No. 5. |

small commercial exchange between the countries, which tends to put the Argentine completely out of consideration in the United States, whereas in Great Britain the news dailies and trade papers contain constant reference to the Argentine, and an acquaintance is narrow indeed if it does not include one person at least, who has gone out to the River Plate to make his fortune. The latter state is the real basis for an investment market. The Englishman regards Argentina more or less as a loosely connected part of the Empire; to the American investment market it is a remote area. American interest had to be developed through increased familiarity with Argentine securities, rather than through acquaintance with the country itself. Up to 1920 very little in this latter direction had been accomplished, even though $80,000,000 of Argentine debt was outstanding at one time.

# CHAPTER IV

## Post War Finances, 1921-1928

I. Shifting debtor-creditor relations. II. The Argentine Budget. III. First Attempt at a Funding Loan. IV. Rise of the New York Money Market. V. Argentine Borrowings in the United States, 1924-1928. VI. Provincial Foreign Loans. VII. Development of the Internal Loan Market. VIII. Results of the Loans and Difficulty of Repayment.

### I. SHIFTING DEBTOR-CREDITOR RELATIONS

For the student of international capital movements, the post war epoch is of supreme interest both because the volume of the flow was swollen to unprecedented proportions, and because the relationships of the countries concerned were completely altered. We have been as yet unable to do more than approximate the consequences of the great changes that this phenomenon has brought about in the United States, still in 1914 a debtor country, in the sense that her foreign debts exceeded the claims of her nationals on other countries.

By 1930 the foreign investments of Americans were estimated at fifteen billions of dollars,[1] a sum many times greater than foreign claims on the United States. In the interim the American money market had been the only source from which extensive capital requirements could be drawn. The United States became, in a very literal sense, the world's banker. Great Britain had previously held a near monopoly in that function, and even at the present moment probably holds the

[1] Exclusive of intergovernmental war debts.

largest share of the world's debts. But American capital was being rapidly superimposed on the far flung enterprise which Englishmen had for a century been constructing. In the Argentine, for example, a field in which British capital and ingenuity had been so completely dominant that it had been considered almost within the Empire, the influx of American capital brought about tremendous consequences, and changed, for a time at least, the entire economic relations of the country.

Argentina's position as a debtor of the United States may be briefly indicated. Of all American foreign investment, about one-third, or five billions of dollars, went to Latin America, of which in turn, about $800,000,000 was invested in Argentina. The proportion of investments made in portfolio or government securities as compared with private, or direct investments, in the chief countries of Latin America is given in the following table:

PORTFOLIO AND DIRECT INVESTMENTS IN CERTAIN COUNTRIES OF LATIN AMERICA, AT THE END OF 1930 [2]

In thousands of dollars

| Country | Direct | Portfolio | Total |
|---|---|---|---|
| Mexico | 694,786 | ..... | 694,786 |
| Cuba | 935,706 | 130,845 | 1,066,551 |
| Argentina | 358,519 | 449,258 | 807,777 |
| Brazil | 210,166 | 346,835 | 557,001 |
| Chile | 440,843 | 260,092 | 700,935 |

The dominance of portfolio investments is rather marked in Argentina, and their absolute bulk is of such importance as to be exceeded only by those in Canada and in Germany, if we include government guaranteed issues in the latter case. Nowadays when billions are

[2] Trade Information Bulletin No. 767, Washington, 1931, p. 16.

dealt with so lightly, it may be necessary to remind the reader that even $800,000,000, when transferred from one country to another in a comparatively short time, may have extraordinary effects on the exchanges, price system, fiscal situation and general economy of each nation, and especially of the debtor country, usually smaller and therefore more sensitive to a given force.

Direct investments in Argentina are represented chiefly by power, transportation, communication, banking, meat-packing, automobile and oil companies.[3] These represent a more desirable type of capital movement than government loans, which partake of the nature of fixed obligations.

Portfolio investments in Argentina included federal, provincial, and municipal loans, in the following proportions at the end of 1930:

| Type | Amount of debt | Percentage of total |
|---|---|---|
| National | 322,457,000 * | 71.7 |
| Provincial | 86,578,000 | 19.3 |
| Municipal | 40,223,000 | 9.0 |
| Total | 449,258,000 | 100.0 |

* Includes short term loans.

American investments in Argentina are not distributed in the same proportion as those of other foreign countries, which incline more to direct holdings. An estimate made in 1920 placed the total of all foreign investments at $3,882,000,000 gold pesos, of which only one-sixth represented government obligations.[4] Great

[3] R. W. Dunn, *American Foreign Investments* is a thorough study but stops about 1925. Max Winkler, *Investments of United States Capital in Latin America* contains a mass of data. Various publications of the Department of Commerce touch upon the subject, especially F. M. Halsey, "Investments in Latin America and the British West Indies." Department of Commerce, Special Agents Series No. 169.

[4] Martinez' estimate, the one referred to, is given in the Department of Commerce, Miscellaneous Series No. 88, p. 125. An estimate

Britain at that time held from 2000 to 2500 millions of these, France 400 millions and Germany 250 millions. A country new to the export of capital is likely to deal more heavily in government securities; such loans can be made more rapidly and without the scrutiny more or less necessary for direct investments.

It is probable that future investments of United States capital abroad will be increasingly of the direct kind. Up to the present, the government bond has been regarded as the minor hazard.

## II. THE ARGENTINE BUDGET

The decade 1920-1930 was no happy one in Argentine financial history. The national budget was not balanced in any one year, and on two occasions the deficit exceeded 150,000,000 gold pesos, equal approximately to one-third of the national expenditures. During this period the total debt nearly doubled, increasing from some 850,000,000 to 1,600,000,000 of gold pesos.[5] Nor was it arranged in convenient form; the floating debt grew from 300 millions in 1920 to 543 millions gold in 1931. This accumulation of floating debt came about in spite of extensive funding arrangements, amounting to an increase of some 500,000,000 gold pesos in the long term debt. None of this debt was represented by productive improvements. The explanation of Argentina's financial difficulties is found in the simple disequilibrium of revenues and expenditures. To the student primarily interested in the problem from the Argentine point of view, it would be misleading to consider merely the methods of handling the debt. It was

made by the London *Economist* in 1930 placed British investments in Argentina at £347,840,000, as follows: £171,400,000 in shares, £111,440,006 in debentures, and £65,000,000 in government bonds, showing much the same distribution.

[5] Compare Chart V.

budgeting disequilibrium which led to the pressure for foreign loans. Success in obtaining funds abroad made possible the persistence of the deficits, which would otherwise have forced a more rational consideration of the problem.

During the War external factors were prominent as causes of the deficits; especially important were the effects of the decline of international trade. Since 1920 the failure of the government to exercise properly its financial functions has been of greater significance. Had the sole issue been the satisfactory handling of the debt created during the war period, there would be no difficulties today. Deficits, however, did not begin with the War, nor did they end with it.[6] Although from 1914 to 1920 attention was directed to so-called uncontrollable factors as being responsible for the disequilibrium, it is more than likely that the nation has been since 1910 outgrowing its system of taxation, while at the same time the crude and comparatively ineffective control of expenditure was in need of overhauling.

We have remarked before that the revenue system is based principally upon the yield of customs duties and, in smaller part, upon other indirect taxes. Under ordinary circumstances the yield of these revenues is stable enough. In the period since 1920, for instance, the general revenues have shown a steady healthy increase, and even in the period of depression, the decline has been slight as compared to the collapse in the yield of taxing systems supposedly much more advanced in the United States. Whatever the defects of indirect taxation, instability of yield is not the most notable; the trouble with the Argentine revenues is that they have not been elastic enough to meet the demands of rapidly increasing expenditure.

[6] Compare Chart IV.

The necessity of changing one or the other is obvious, and although as we shall try to indicate later, the fault lay in large part in unjustifiable expenditures, yet an increased revenue from more diversified sources would undoubtedly be advantageous to the nation.[7] It would be particularly desirable to reach the wealthier members of the community so that their weight and influence might be brought to bear in the direction of restricting expenditures. An income tax has been frequently proposed to fill this need, and in 1932 a moderate one was actually applied; but there are some serious objections to its use in the Argentine. To be effective at all, such a tax must be levied on all kinds of enterprises; but a great deal of the capital of the nation is foreign, and a great deal of the future capital is expected to come from abroad. An income tax would operate directly to reduce the return upon such capital, and might even tend to make European lenders attempt to withdraw their funds; certainly it would discourage future imports of capital. There has also been recently imposed a tax on transaction, a kind of limited sales tax, whose effect appears to be uncertain at this time. It will surely not prove sufficient to eliminate the need of further changes. At any rate a beginning has been made, and this, if one can judge from the experience of other nations with the income tax, is always the most difficult thing to accomplish. After it has been imposed the tax is there to stay. Whether there is a sufficient basis in the debtor position of the nation to justify discarding this means of obtaining revenue remains to be seen. Other difficulties may appear in creating the machinery necessary for the proper administration of such a levy. Moreover it is improbable that the funds derived from

[7] Compare opinions expressed in Trade Information Bulletin No. 497 on the Argentine budget, advocating a revised system of taxation.

its use will for some time provide any sizable additions to the nation's income.

Regarding the expenditure part of the budget, greater definiteness may be used. There has been in Argentina, as in all other countries, general agreement that expenditures must be reduced; but principles as to the exact items which should be cut have been, as also in other countries, rarely advanced.[8] The difficulty of passing from general sentiment to positive results is increased by the process of budgeting. There is no single person responsible for balancing the budget. The finance minister, upon whom the responsibility would logically rest, is so charged neither by the Constitution nor by custom. On the contrary, each minister draws up an expense account for his particular department and this is presented to the Chamber of Deputies for modification and approval. It is the task of the unhappy finance minister to obtain an income sufficient to meet the demands, whatever they may be, but he has no power to modify the estimated requirements of his colleagues. Moreover, the Chamber, after receiving the estimates of expenditures from the Executive, considers itself at perfect liberty to change them in any way it sees fit, or even to disregard them altogether. Usually the deputies are not inclined to be vigorous in supporting reductions; their zeal is generally turned in the direction of increasing the share of some particularly favored branch of the government. When the revenue estimates are presented, however, their enthusiasm knows no bounds in championing the downtrodden taxpayers. No better evidence of the regrettable rôle played by the deputies in the formation of

[8] There is an excellent discussion of the Argentine procedure in G. Jeze, *Las Finanzas Públicas de la República Argentina,* pp. 17-59. Also in Terry, *Finanzas,* 3d ed., 1912.

the Argentine budget could be found than the fact that from 1914 to 1930 no changes of significance were effected because of the immobility of that body. Holders of various ministerial portfolios continue to appear before Congress to ask for concessions denied them by the executive. If the foregoing were insufficient to make clear that the financial power of the deputies needs to be curtailed considerably in this direction, it may be added that although the deputies generally receive the estimates in May or June, only on rare occasions are they approved before the beginning of the fiscal year in January. The nation has been governed for considerable periods under "twelfths," or monthly extensions of the last authorized budget.

The loose nature of control over expenditures is apparent in the fact that many of them are extra-budgetary. Unusual and unexpected needs are properly met in this way; but the following table serves to indicate that the practice has been abused:

AUTHORIZATION OF NATIONAL GOVERNMENT EXPENDITURES [9]
In millions of paper pesos

| | Budget | Appropriated in previous years | Special law | Decrees | Total |
|---|---|---|---|---|---|
| 1920 | 415 | 5 | 31 | 37 | 488 |
| 1921 | 471 | 14 | 11 | 64 | 560 |
| 1922 | 510 | 18 | 10 | 76 | 614 |
| 1923 | 572 | 16 | 43 | 1 | 632 |
| 1924 | 621 | 18 | 12 | 10 | 671 |
| 1925 | 611 | 35 | 35 | 33 | 713 |
| 1926 | 653 | 29 | 29 | 35 | 746 |
| 1927 | 693 | 86 | 251 | 20 | 1049 |

Another, and more serious defect is found in the arrangement by which the state manages its supposedly self-supporting services. There are more than a score of these, called autonomous bodies, the most important

[9] *Economic Review*, Banco de la Nación, November, 1930.

being, in the order of magnitude, State Petroleum Industry, State Railways, Sanitary Works, Bank of the Nation, Mortgage Bank, Postal Savings, and the National Universities. According to a trustworthy estimate, these institutions spent some 368,000,000 paper pesos in 1932, none of which was even reviewed by the Congress.[10] In prosperous times these enterprises meet their expenses without help, although there are undoubtedly abuses and waste in administration. But when depression unbalances their budgets the federal government is forced to step in and make good the deficit, at the very time when it has a sizable one of its own to handle. Besides the disadvantage of a complete lack of congressional control, the absence of detail makes it difficult to estimate the national floating debt at any given time.

This brings us to the general problem of obtaining information regarding the finances of the nation. Argentina uses sufficient publicity; national finance reports in detail are published annually. But the material is hopelessly confused by unsystematic presentation, and its usefulness is largely nullified by delayed appearance, sometimes as much as two years after the close of the fiscal year.[11] The material is not always dependable; in 1929 for instance, the finance minister's report underestimated the deficit by nearly 90,000,000 gold pesos. It is difficult, therefore, to give an estimate of the current financial position at any time; even experts in the field resort to a curious kind of guessing.

[10] *La Prensa,* January 8, 1933. Accounts are submitted to Congress since 1923, but no real supervision is maintained.

[11] The reports contain much information besides that directly involving the treasury. Loan contracts are included, as well as statistics of foreign commerce, and reports of the Bank of the Nation. Monthly reports are also published but these are subject to substantial correction.

In the 1929 case alluded to, the great disparity can be explained by the fact that the government was attempting to conceal the real situation. But it is not at all uncommon for large corrections to be made between the appearance of the accounts and the final assembly of the material by the statistical department, in whose compilations the most useful material is to be obtained.

Statements of financial condition usually include in the expenditure account money spent for public works representing improvements of a capital nature; the revenues include bond issues from which the money was obtained. Subsidies or charitable institutions supported by the State are also included, as are the taxes apportioned for their support. Other independent state organizations, such as the railway system, do not appear; their deficits are brought together at the end of a series of years when unmanageable, and are then included in the national budget. Excessive expenditures for public works and deficits of these autonomous bodies have been among the chief causes of increasing indebtedness in the last ten years:

CLASSIFICATION OF NATIONAL EXPENDITURES [12]
In millions of paper pesos

| Year | Administrative | Subsidies | Public works | Special | Total |
|---|---|---|---|---|---|
| 1920 | 431 | 13 | 25 | 20 | 489 |
| 1921 | 494 | 15 | 49 | 3 | 561 |
| 1922 | 536 | 14 | 66 | 5 | 621 |
| 1923 | 555 | 18 | 69 | 2 | 644 |
| 1924 | 576 | 19 | 71 | 0.7 | 673 |
| 1925 | 596 | 18 | 74 | 40 | 728 |
| 1926 | 626 | 18 | 78 | 24 | 746 |
| 1927 | 661 | 29 | 129 | 233 | 1050 |
| 1928 | 647 | 26 | 148 | ... | 821 |
| 1929 | 702 | .. | 158 | ... | 889 |

[12] Banco de la Nación, *Economic Review*, November, 1930. Special expenditure in 1927 was chiefly the assumption of the State Railway debt.

The entire mechanism of budget making needs to be remodeled before the finances can be put back upon a really firm basis. In the course of the past three years the United States has become familiar with the difficulties of divided responsibility in such a supremely important matter. The Argentine has been suffering a similar experience since 1910, and the accumulated burdens of the intervening years have now reached such magnitude that they almost compel a revision of the system. Some one person must be made responsible for the budget, which must be definitely unified, and a direct control extended over every entity for which the state is in any way responsible. The right of modifying the budget exercised in the past by the Chamber of Deputies should be definitely curbed; otherwise the annual delay and indecision will never be overcome. New revenues are doubtless needed, and economies can certainly be made; but until some one is placed in a position of control, no effective steps can be taken in either direction, and the national finances will continue in confusion.

### III. FIRST ATTEMPT AT A FUNDING LOAN

We resume the chronicle of Argentine financial operations with the government in a trying position. After the New York money market had been closed to it in May, 1920, the downward movement of the international price level caused extreme monetary stringency in Buenos Aires, in spite of the neutralizing effect of peso depreciation.[13] A projected internal loan had to be abandoned, and the desirability of an external one as a check upon further exchange declines became more

[13] There was no further official interference with Argentine borrowing. The much abused policy of having foreign loans approved by the Department of State had no effect on Argentine loans.

obvious. There were more or less continuous negotiations, but the war had so depleted the supply of capital that long term funds could not be provided at a satisfactory rate. An offer made in January, 1921, that the government should receive 98 for 8 per cent bonds of a $200,000,000 issue was promptly rejected as usurious.[14] Renewals in the Buenos Aires market were not obtained at a much more favorable rate, costing from 6 to 6½ per cent at this time. Even this was no higher only because the unfavorable exchange caused many foreign houses to hold pesos until a more advantageous time to transfer.[15] Buenos Aires business men were in favor of a foreign loan, as likely to strengthen the peso and make increased imports possible, besides providing the means for foreign enterprises to withdraw their balances.

During 1921 conditions improved both in Argentina and in the United States, so that the business which had appeared uninviting to bankers in April, became the object of lively competition in August. A factor in the appearance of this rivalry was the disbanding, some weeks before, of the "South American Group," which had monopolized Argentine business since 1916. Thereafter competition became so keen that one group of bankers, in their eagerness, made a premature offering of $50,000,000 in 7 per cent two year gold notes, priced to yield 8 per cent, and were stopped only by a cable from Buenos Aires.[16]

There had been more or less consistent gambling in the exchanges in anticipation of a foreign loan. This became more marked after the false start disclosed the

[14] New York *Times*, January 21, 1921.

[15] Tornquist Reports, May 31, 1921; *Commercial and Financial Chronicle*, 1921, I, 792.

[16] *Times*, August 9, 1921.

government's intentions. Irigoyen continued to receive offers and to delay, until on September 16, it was definitely announced that no loan would be made.[17] Ten days later the offering of $50,000,000 of 7 per cent two year Treasury notes to yield 7.20 per cent was made by Blair and Company, Chase Securities Company, and White, Weld and Company.[18] Such an operation in itself could not have been regarded as of great value to the treasury or to the government; but it would relieve the banks of Buenos Aires, help peso quotations, and might lead to a later funding loan. Exchange remained below par, though appreciating steadily on the dollar, beginning in August, 1921. The rise did not seem to help internal affairs. Price declines in terms of pesos were accentuated, and money remained tight. The Bank of the Nation was called upon to finance live stock loans to the extent of over 200,000,000 paper pesos, made by other banks, and unrealizable because of the decline of prices. At the same time it was reported that the greater part of the floating debt had been rediscounted at the Bank of the Nation, with consequent strain upon its resources.[19] Loans were being proffered constantly by New York and occasionally by European bankers, and a $13,000,000 five year loan was made by the Baldwin Locomotive Company to the State Railways, one of the autonomous bodies, or independent departments controlling government owned enterprises in Argentina. It was said that no agreement could be reached at this time because of a dispute regarding congressional authorization, which President Irigoyen held unnecessary for the type of security contemplated, while the bankers insisted upon

[17] *Ibid.*, September 16, 1921.
[18] *Ibid.*, September 27, 1921.
[19] *Economist*, 1921, II, 89.

it.[20] Irigoyen had no power to issue a funding loan, and some elements of the opposition had even objected to the unauthorized two year loan of 1921; but he was able to drive a good bargain, for in March, 1922, $27,000,000 in five year 7 per cent bonds was offered in New York, under the same circumstances. It was a questionable victory; only 95 was received for the bonds and the cost to the government was nearly 8¼ per cent. Perhaps political influences played some part in the rate paid by the government. The radical party, with a definite nationalization policy frequently opposed to the interests of foreign capital, appeared certain of continuing in power by winning the elections of 1922, after which more ambitious measures might be expected. British interests were particularly unsympathetic toward the radical party because of the treatment accorded the railroads; more than likely the effect upon the American capitalist was negligible. If a nation could pay, that was enough; the rate depended mostly upon the willingness of the lender.[21]

This five year loan was of course a mere stop-gap for the treasury; immediately afterward efforts were directed toward obtaining a larger funding loan. Bids were asked on a prospective $165,000,000 issue late in July, 1922; of the four received, none were for the full amount and all were rejected. The request was not even considered seriously by some bankers. Only two days were allowed for preparing the tenders, and it was felt that such important business would be left to the new government coming in the fall. Proposals were again invited in August, when the best offer received was 92 for $80,000,000 of 6 per cent bonds. Before opening the

[20] *Times*, December 29, 1921.

[21] Compare the opinions expressed in the *Economist*, May 4, 1922, p. 1212, which clearly disclose the uncertainty of the British capitalist.

bids, the government announced that the minimum price must be at least 95 for 6 per cent bonds, so that all offers were again rejected.[22] After a good deal of haggling an offer was accepted from Blair and Company to take 6½ per cent bonds at 97, dependent upon the approval of the Argentine Congress. Irigoyen could not get Congress to authorize the operation, and although the option was extended by the bankers from fifteen days to two months, it was finally rejected.[23] Throughout the twenties the government kept up its policy of constant wrangling with the money merchants, as though the latter were responsible for the condition of the market.

In October, 1922, Alvear succeeded Irigoyen as president, and immediately clarified the loan problem by declaring that authorization would have to be obtained from congress before any would be attempted. A short time after his accession the government announced a plan to fund the entire floating debt of nearly 1,000,000,000 paper pesos, by three separate operations. Half of the debt was to be funded in the form of 3 per cent Treasury bonds, which were to be held by the banks as a required reserve against deposits, and which were to be convertible into cash on demand by rediscount at the Bank of the Nation. Of the other 500,000,000 paper pesos of the floating debt, 200,000,000 pesos were to be funded into a 6 per cent internal patriotic loan, and 300,000,000 pesos were to be raised by external borrowing.[24] The scheme was not completely worked out; it was uncertain, for instance, just how the rediscount of the banking issue could be managed, and whether or not an unjustifiable currency expansion

[22] *Ibid.*, 1922, II, 470.
[23] *Ibid.*, p. 805; *Times*, September 23 and 27, 1922.
[24] *Ibid.*, January 27, 1923, *Economist*, 1923, I, 435.

might result. Observers thought that the money market of Buenos Aires late in 1922 and early in 1923 was ripe for the issue of a funding loan, and perhaps the entire debt could have been funded by quick and skilful action. Some great concessions would have been necessary to induce the banks to subscribe to the extent of 500,000,000 paper pesos, and there was not sufficient pressure to bring about the change. The plan hung fire for a while; then slowly slipped back into obscurity, as other similar proposals have since.

Only that part of the government's plan which had to do with funding operations was ever acted upon. A law of July, 1923, authorized an emission of 150,000,000 gold pesos in 6 per cent bonds at a minimum price of 92; it was not limited to the internal market, and therefore would serve for a foreign loan.[25] Competition for the business immediately appeared, and in August a contract was awarded to New York bankers for a $60,000,000 offering. The exchanges played an important part in determining the market, both in favoring an external loan, and in placing it in the United States.[26]

[25] Internal loans are freely authorized in the Argentine but not so easily floated. A close watch is maintained by the congress over external obligations, however, and an enabling act is not always easy to obtain.

[26] London was able from time to time to take small amounts of Argentine government bonds. In June, 1923, £2,500,000 in 5 per cent bonds of the Municipality of Buenos Aires were sold there, at a price of 86½ per cent, a better price than could be obtained in the United States. The price included 2¼ per cent accrued interest, which still left a low yield. But the British 2 per cent tax, and 4 per cent for commissions and expenses, plus a loss of nearly 6 per cent in negotiating the exchanges, made the net yield to the city 72¾, a not very favorable result, and one which undoubtedly convinced the federal government that New York was the best market. *Economist*, 1923, II, 104. A few other very small Argentine national government issues were made in London in 1923 and 1924 and some of the dollar loans were taken there; but the total was not large.

The steady decline of the peso from eighty-six cents in December, 1922, to seventy-eight cents in July, 1923, doubtless provided the chief incentive for seeking a permanent loan, to avoid the depressing effects of paying off the $50,000,000 loan due in September, 1923. Exchange rates also had much to do with the selection of the New York market over London, where money was comparatively easy.[27]

The funds acquired by the bond issue were to be used in repaying the short term $50,000,000 loan. It was the current notion that if the money were borrowed in London, more of it would be required than if dollars were obtained.[28] From this point of view, borrowing in terms of an inconvertible currency is always a gamble for both parties; but in the particular case under discussion it was especially undesirable to become a debtor in terms of the depreciated currency, when its sponsors openly indicated their intention to increase its value. To borrow cheap money and repay dear is obviously to take the poorer bargain, unless the rates offered for money in terms of the gold unit are extremely unfavorable.[29] Besides these general objections, there are other difficulties connected with the transfer of funds between countries having inconvertible currencies. The tendency would be for sterling temporarily to depreciate and to a more marked degree for the peso to appreciate while the transfer was being made; after which they would revert toward their previous levels. Such a movement must clearly be unfavorable to the borrower. It would have been impossible under freely

[27] *Times,* June 8, 1923, August 18, 1923.

[28] *Ibid.,* June 8, 1923.

[29] The peso, on the other hand, would be likely to rise toward parity with the dollar in the future, which would represent the reduction of a dollar debt.

convertible currencies, or if only the creditor's currency were convertible, because of the possibility of shipping gold.

The market was most unfavorable through the closing months of 1923, especially for long time obligations. Argentine exchange and business conditions were so sharply affected by continental currency depreciation that a crisis developed in Buenos Aires at the end of 1923. The loan contract was in many ways unusual, and reflects the loss of confidence of the money market in foreign securities generally.[30] The bankers agreed to take either all the $60,000,000 in 6 per cent thirty-four year bonds at 92 within six months after September 1, 1923, or blocks of $20,000,000 according to their convenience, or not at all. There was agreement to supply the funds necessary to meet the two-year notes maturing on October 1, 1923. In effect, the net result of the contract was to give a six month option on the purchase of 6 per cent bonds, in exchange for a short term advance. It was an expensive arrangement for Argentina, since the 6 per cent six month notes were taken by the bankers at a price of 98½, representing a cost to the government of over 9 per cent.[31] At this time money was still so cheap in Buenos Aires that the national government could borrow from the banks at 4 per cent. The high price paid for the dollars represented simply an unwillingness either to depress the exchanges or to ship gold.[32]

[30] The contract, dated September 5, 1923, is published in the *Memoria de Hacienda,* 1923, p. 369. Only six bids were made in response to a published invitation and only one offered a purchase. The contract provided that a part of the loan might be issued in London in sterling, also at 92 per cent. Kuhn Loeb and Company, and Blair and Company became fiscal agents of Argentine for payment of interest and principal.

[31] New York *Times,* August 24, 1923.

[32] *Economist,* 1923, II, 442.

After a month's delay, the Argentine loan was finally offered on January 17, 1924. It was for only $40,000,000 of the $60,000,000 supposedly contracted for, much to the surprise of observers from Buenos Aires, where the contract had not yet been published. The bankers' caution in not accepting the entire amount was amply justified by the results. The bonds, offered at 96½ plus accrued interest to yield 6.25 per cent to maturity, sold poorly, and when the syndicate expired after six weeks vain effort to bolster the market, the bonds fell four and one-half points in one day to 87.[33] It was said that only half of the issue had been sold on account of the high price, made more marked by comparison with the yield of 7.10 per cent offered by the $150,000,000 Japanese loan which appeared at the same time. In order to meet the $55,000,000 six months advance provided by the loan agreement, it was necessary to supplement the funding operation with an issue of $20,000,000 of 5½ per cent six months treasury notes.[34]

In this sharp rebuff to the borrowing aspirations of the Argentine there was no trace of that generous reception which foreign obligations were to be accorded in the near future. From the depths of 1923 recovery seemed distant, and the prospect of capital export still more remote. European improvement came with remarkable rapidity, and once started, its progress was accelerated by the freedom with which Americans poured their funds into foreign lands. The Argentine was unquestionably aided by the flow of capital to Europe, and its direct imports of capital had also great effects.

[33] *Times,* March 4, 1924. Kuhn, Loeb and Company, Blair and Company, and Chase Securities Corporation were the bankers.

[34] Complete terms of all the loans of this period are given in Tables on page 124.

Argentina issued a standard type of security during this period, a 6 per cent bond with a 1 per cent cumulative sinking fund, so that the cost of service remains fixed at 7 per cent of the face value of the amount originally issued. The interest on redeemed bonds is paid into a sinking fund, for which bonds are purchased by tender at prices below par, or by call if the ruling figure exceeds par.[35] By this system the exact maturity of the debt is unpredictable; but the maximum is thirty-four years, which may be much reduced by the redemption of bonds at discount, or by increases in the sinking fund, or by complete call at any time.

Advocates of this type of security say that it extinguishes itself and is therefore an ideal form; others believe that the sinking fund, which begins almost as soon as the loan has been issued, greatly reduces the utility of borrowing by requiring repayment before the money can really be used, and therefore increases the cost. It is probable that the form has worked no particular hardship on Argentina, while the uniformity characteristic of the nation's bonds has certainly been of advantage.[36]

[35] The single exception was the 5½ per cent loan of 1928, which varied only in the interest rate.

[36] It is probably true, however, that this type of security encourages the formation of a floating debt. When these loans have been outstanding for a considerable time redemptions become comparatively heavy, and if there are deficit budgets, as there always are in Argentina, such retirements do not represent the reduction of debt, but the transfer of debt from funded to floating. The evil of an excessively rapid amortization occurs more frequently in lower grade bonds, the Argentine Provincial issues being weak in this respect. It will be noted that for a sinking fund of any given annual percentage, redemption is more rapid as the coupon rate rises.

## IV. RISE OF THE NEW YORK MONEY MARKET

The really important relations between the American money market and Argentina developed in the brief period between 1924 and 1927. In these years the outward movement of capital went on with that remarkable rapidity and intensity which has characterized its movements in the past. We may properly pause here and briefly search the commercial background of the debtor country for the changes which caused its credit to be so greatly enhanced, at least in the eyes of North Americans.

The general revival of business in all the leading nations of the world which came in 1924 was shared by Argentina, where bumper crops, marketed at steady prices to a good European demand, made possible the establishment of a new record for volume of exports. Values climbed nearly to the peak of 1920 and made the balance of trade favorable for the first time since that year. Exchange rates improved correspondingly. The gold peso, after having wavered uncertainly for a year, began in July, 1924, a steady rise which carried it from seventy-four cents United States gold to ninety-one cents in January, 1925. National credit rose correspondingly.[37]

The succeeding years of 1925 and 1926 saw widespread depression in Argentina. In the former year, small crops combined with decreasing cereal prices sufficed to turn the trade balance unfavorable again. It remained so during the following season with cir-

[37] During 1924 some 33,000,000 gold pesos in gold had been exported and the currency retired from circulation, also contributing to the rise of the peso. The shipments were made by the government for service of the foreign debt. As long as the dollar was at a considerable premium over the pound, gold was sent to New York, converted into dollars and to sterling exchange to meet debt obligations in London.

cumstances only slightly improved. The exchanges sagged, but the inflow of foreign capital was enough to prevent a precipitous decline. Gold exports had been permitted since May, 1925, when Great Britain returned to the gold standard, and the rise of the peso to nearly par had given the general impression that resumption was not far off in Argentina. The permission to export gold did not effect the closure of the Conversion Office, which was not modified until the unprecedented grain shipments of 1927. Increasingly rapid importation of capital then drove the peso over par, and the government was almost forced to restore convertibility, in spite of the incomplete fulfillment of the conditions stated by the Finance Minister as necessary prerequisites to resumption of the gold standard.[38] After this step was taken national prosperity continued to increase. The balance of trade was in 1927 very favorable, in spite of falling prices, because of large crops. Gold was imported in such considerable quantities that the delicate operation of England's hybrid gold standard was affected.[39]

The banking and general financial situation was tremendously fortified by these new gold stocks, amounting to nearly 200,000,000 pesos gold. Current opinion, prone to search no deeper than the simple figures of foreign trade, extended the optimism to the national finances, in spite of the regular deficits of roughly 100,000,000 gold pesos. The favorable international balance continued through 1928 and 1929; but in 1930 poor crops again coincided with low prices, reversing the picture with startling rapidity. These happenings are, however, a little beyond the range of our present

[38] *Economist*, 1927, I. Dr. Molina wanted the budget balanced and the floating debt funded before opening the Conversion Office.

[39] *Times*, August 30, 1927, September 10, 1927.

interest. Of the four years 1924-1927 during which the bulk of Argentine debts in the United States were contracted, the first and the last could reasonably have supplied an optimistic background. But the other two were years of unquestionable depression, a fact which apparently had little influence on the market for its securities. Curiously, in the year following, when the national credit was to all appearances unimpeachable, only one small loan was contracted.

The determining causes of international borrowing appear in this case at least more closely related to the situation of the leading capital market than to conditions within the debtor country. The cost of capital declined consistently from 1924 to late in 1928, and Argentine securities were sold at increasingly favorable rates throughout that time regardless of the less satisfactory internal situation. This decreasing cost of long term money can be easily measured by the increasing prices obtained for the standard type of Argentine security, a 6 per cent bond which issued throughout this time with identical conditions.[40] Early in 1924 the bankers had paid 92 for the first foreign loan issued by Argentina since the War. This price turned out to be a clear misjudgment of the market; only about half were sold, and the market value soon fell far below the issue price. It was probably because the high price could not be obtained again that no further issues were made until December, 1924, by which time the market had improved so much that Series B of the same loan could be sold also at 92, which was again obtained for an offering in June, 1925. For this time the price rose steadily to 93½ in September, 1925, 94½ in April, 1926, 95 in Sep-

[40] See below, page 124, for a complete description of this security. One 5½ per cent issue was made in 1928.

COST OF ARGENTINE LONG TERM LOANS IN THE UNITED STATES

| Title | Amount | Rate per cent | Banker's price | Time | Rate paid by government * |
|---|---|---|---|---|---|
| Series A—1924.... | $40,000,000 | 6 | 92 | 34 years.† | 6.596 |
| Series B—1924.... | 30,000,000 | 6 | 91¾ | 34 years. | 6.6125 |
| Series C—1925.... | 45,000,000 | 6 | 92 | 34 years. | 6.596 |
| Series D—1925.... | 29,700,000 | 6 | 93½ | 34 years. | 6.477 |
| External Loan of 1926..... | 20,000,000 | 6 | 94½ | 34 years. | 6.40 |
| Public Works Loan of 1926..... | 16,900,000 | 6 | 95 | 34 years. | 6.36 |
| Funding Loan of 1927..... | 27,000,000 | 6 | 95 | 34 years. | 6.36 |
| Public Works Loan of 1927..... | 21,200,000 | 6 | 95½ | 34 years. | 6.3225 |
| State Railway Loan of 1927..... | 40,000,000 | 6 | 95½ | 34 years. | 6.3225 |
| External Loan of 1928..... | 20,000,000 | 5½ | 94-4/10 | 34 years. | 5.8833 |

* Rate paid by government assumes bond is outstanding for 34 years, and is redeemed by the final operating of the sinking fund.

† Maximum.

COST OF ARGENTINE SHORT TERM LOANS IN THE UNITED STATES

| Title | Amount | Rate per cent | Banker's price | Time | Rate paid by government |
|---|---|---|---|---|---|
| Treasury Bonds of 1921..... | $50,000,000 | 7 | 97 | 2 years. | 8.16 |
| Five Year Bonds of 1922..... | 27,000,000 | 7 | 95 | 5 years. | 8.24 |
| Treasury Bills of 1923..... | 55,000,000 | 6 | 98⅛ | 6 months. | 9.94 |
| Treasury Bills of 1924..... | 20,000,000 | 5½ | 99¾ | 6 months. | 5.75 |
| Treasury Bills of 1924..... | 10,000,000 | 5¼ | 99½ | 1 year. | 5.77 |
| Treasury Bills, June, 1924..... | 20,000,000 | 5 | 99⅝ | 6 months. | 5.78 |
| Treasury Bills, October, 1924... | 5,000,000 | 4 | 99½ | 6 months. | 5.02 |
| Treasury Bills, September, 1926 | 20,000,000 | .. | .. | 6 months. | 5.63 |
| Treasury Bills, September, 1927 | 12,000,000 | 5 | .. | 6 months. | ... |

tember, 1926, and 95½ in April, 1927. For the last long term loan, issued in February, 1928, the coupon rate was reduced to 5½ per cent, for which the bankers paid $94\frac{4}{10}$ per cent, the most favorable terms secured by the nation since pre-war days.[41]

## V. ARGENTINE BORROWINGS IN THE UNITED STATES, 1924-1928

It is convenient at this point to summarize in general terms the Argentine foreign debt policy from 1923 to 1928. Early in 1923 there were $77,000,000 of short term obligations outstanding in the United States, which had cost the government well over 8 per cent to obtain, and which it hoped to fund into long term bonds at the first favorable opportunity.[42] An attempt was made to do this late in 1923; but the moment was particularly inauspicious, and the failure of the $40,000,000 loan although representing no direct monetary loss to the nation, forbade any further offerings. Advantage was taken of the favorable short term market of 1924 to issue and renew several short term obligations; but these operations were of relatively small importance.[43] High rates had been paid for short term money in 1921 and 1922 because relief was required for both the banking situation in Buenos Aires and for the declining peso exchange. After 1923 circumstances were not so urgent, and short time loans in New York were conveniences rather than real aids for the treasury. Argentina was then exclusively interested in large funding loans, an accommodation not obtainable from local re-

[41] Consult table on page 124 for yields, and rates actually paid by the government.

[42] The $50,000,000 two year Treasury bonds of 1921 and the 27,000,000 five year Bonds of 1922 carried a 7 per cent rate.

[43] Only $35,000,000 was outstanding at any one time.

ARGENTINE LONG TERM LOANS ISSUED IN THE UNITED STATES, 1921-1928.

| Loan | Bankers | Rate. Per cent | Price | Yield | Purpose | Amount |
|---|---|---|---|---|---|---|
| Series A—1924 | Blair & Company, Chase Securities Corp., Kuhn Loeb & Company. | 6 | 96.5 | 6.25 | Fund floating debt. | $40,000,000 |
| Series B—1924 | Blair & Company, Chase Securities Corp. | 6 | 95.0 | 6.36 | Same. | 30,000,000 |
| Series C—1925 | J. P. Morgan & Co., National City Co. | 6 | 96.0 | 6.32 | Same. | 45,000,000 |
| Series D—1925 | Same. | 6 | 96.5 | 6.25 | Same. | 29,700,000 |
| External Gold Loan of 1926 | Same. | 6 | 98.0 | 6.13 | Same. | 20,000,000 |
| Public Works Loan of 1926 | Same. | 6 | 98.25 | 6.10 | For public works. | 16,900,000 |
| Funding Loan of 1927 | Same. | 6 | 98.25 | 6.10 | Fund five year bonds. | 27,000,000 |
| Public Works Loan of 1927 | Same. | 6 | 99.0 | 6.05 | For public improvement. | 21,200,000 |
| State Railway Loan of 1927 | Blair & Co., Chase Securities Corp., Tornquist & Co. | 6 | 99.5 | 6.03 | To pay floating debt of state railways. | 40,000,000 |
| External Gold Loan of 1928 | Same. | 5½ | 97.0 | 5.7 | To fund floating debt. | 20,000,000 |

sources. The following table lists the amounts of long term bonds offered by years from 1924 to 1928:

| | |
|---|---|
| 1924 | $70,000,000 |
| 1925 | 74,700,000 |
| 1926 | 36,900,000 |
| 1927 | 88,200,000 |
| 1928 | 20,000,000 |
| Total | $289,800,000 |

During the same time the external floating debt was completely eliminated, and for nearly two years, 1928 to 1930, there were no new engagements of any kind between the Argentine Republic and New York investment houses. Thereafter short-term borrowings were resumed as the nation found itself again in serious difficulties. This will be seen in the following table:

ARGENTINE DEBT IN THE UNITED STATES, 1921-1931

(Ignoring Amortizations of 1 per cent per annum on the funded debt; in millions of dollars)

| Year end | Funded | Floating | Total |
|---|---|---|---|
| 1921 | .... | 63 | 63.0 |
| 1922 | .... | 90 | 90.0 |
| 1923 | .... | 95 | 95.0 |
| 1924 | 70.0 | 75 | 145.0 |
| 1925 | 144.7 | 55 | 199.7 |
| 1926 | 181.6 | 47 | 228.6 |
| 1927 | 269.8 | 12 | 281.8 |
| 1928 | 289.8 | 0 | 289.8 |
| 1929 | 289.8 | 0 | 289.8 |
| 1930 | 289.8 | 50 | 339.8 |
| 1931 | 289.8 | 20 | 309.8 |

Some of the more important circumstances attending the creation of the external funded debt will be noticed here. The reader primarily concerned with the details of the financial operations is referred to the tables of prices, coupon rates and yields on pages 124 and 126.

The failure of the Argentine loan of January, 1924 did not deter bankers from making other offers; it did, however, deter the government from accepting them. All bids made during 1924 were refused, even though it was well known that a funding loan was desired. Among the rumored projects was a £20,000,000 British loan, and numerous propositions for meeting the $20,000,000 in notes maturing in August; but it is improbable that any one of the schemes reached the minimum of 92 for thirty-four year 6 per cent bonds. All of the external negotiations actually undertaken in 1924 had to do with the floating debt. The notes just referred to were renewed for six months, and $15,000,000 was borrowed at short term to pay for warship repairs and agricultural supplies. Because of these operations and the refusal of Finance Minister Molina to consider offers for funding loans, one financial observer thought that Argentina was imitating Secretary Mellon's policy of raising money by short term issues rather than by higher interest bearing securities of long maturity.[44] The short term market was favorable in the summer of 1924. Argentine notes sold in August, for instance, netted the investor a yield of only $3\frac{7}{8}$ per cent, as against $5\frac{1}{2}$ per cent six months before, and as compared with a yield of over $6\frac{1}{2}$ per cent on long term bonds.[45] But the advantage of the short term issue for the borrower was less than the figures indicate. The cost of short term maturities was burdensome, and it is probable that the high rate for long term money rather than the low rate for short term led the treasury to select the latter alternative. In any event these short term loans were so small that their significance is limited; the

[44] *Times*, July 16, 1924.

[45] *Ibid.*, August 8, 1924. The $3\frac{7}{8}$ per cent was a record low yield for a foreign bond.

rates were not perceptibly more favorable than those available in Buenos Aires.

In December, 1924, Series B of the 150,000,000 gold peso loan of 1923, of which $40,000,000 had been floated in January, was offered. Argentine bonds had completely recovered from the decline following the flotation of Series A, but it may be inferred that the bankers were more cautious this time, since an option for an additional $10,000,000 was not exercised.[46] In spite of current heavy financing, the subscription was easily filled, if we may trust public report.[47] At this time foreign loans were beginning to come into prominence. Their volume for the year exceeded the billion dollar mark, or nearly the aggregate of American state and city issues.[48] But the market for a particular nation's bonds was not nearly so broad as it was later to be, if we may judge from the experience of Argentina. It had been originally intended to offer the entire 150,000,000 in a single issue; but banking houses refused to bid for it at what the borrower considered a " reasonable rate." At this time any single foreign security had to be carefully " fed " to the market; the demand was highly inelastic, as the results of the first loan showed, and the cautious policy of small but repeated issues was followed by the Argentine.

Six months elapsed before another attempt at a funding loan was made. This took the form of the largest single offering of Argentine bonds in the entire decade, a $45,000,000 issue, Series C of the 150,000,000 gold peso loan, sold to J. P. Morgan and Co. and the National City Bank at 92, the same price obtained for previous parts. Bond prices had risen in the meantime,

[46] *Economist,* 1925, I, 199.
[47] *Times,* December 5, 1924.
[48] *Ibid.,* December 4, 1924.

and the government had received a more favorable bid for the business from another firm but had refused it.[49] All other post-war negotiations in New York had been handled by Blair and Company and the Chase Securities Corporation, and the competition for Argentine business had been referred to in 1924 as "the keenest Wall Street has experienced."[50] It is extremely difficult to follow these struggles between banking groups from available material, and impossible to interpret them. In this case it is not even clear that the bankers' competition had any real significance. The whole affair may have been simply the customer's deliberate transfer of his business from one merchant to another because of a disaffection arising from earlier relations.[51] There was competition, of course, but that the government did not use price alone as the basis of selection of its bankers may be inferred from the fact that thereafter four consecutive loans were floated by the Morgan-National City combination before another shift was made back to Blair-Chase Securities for the last two long term loans issued. The relations between banker and government have not been so closely drawn in the matter of short term loans, probably because their placement is of relatively small difficulty and the same

[49] It was reported that there was a full point difference in the bids, and that $450,000 had been paid for the privilege of doing business with the Morgan firm. *Ibid.*, May 26, 1925.

[50] *Ibid.*, February 7, 1925. The Argentine generally asked for bids for loans, when one was projected, even though it was almost certain beforehand who would receive the contract.

[51] The only complicated undertaking had been the issue of Series A early in 1924, by Blair and Co., involving two short term loans at high rates. The terms were assailed in the Argentine Congress as soon as they became known, and later it was reported that Treasury officials were dissatisfied with the interpretation of certain clauses referring to the short term loans. *Times*, February 21, February 24, 1924.

financial strength is not required. It will be recalled that the changing of bankers has been more or less a traditional policy of Argentine finance. Even the house of Baring in the days of its greatest strength was unable to hold their patronage exclusively.

Whether or not the banker's prestige was responsible, Series C sold rapidly, and the government decided upon a program of rapid funding.[52] Although exports were light, and prices of Argentine products high in relation to the world level, the peso continued to rise because of the loan already negotiated, and those expected in the immediate future.

In September, 1925, the same bankers floated $29,700,000 of bonds of Series D, which completed the 150,000,000 gold pesos authorized.[53] A higher price was paid by the bankers and obtained from the public. The prosperity of Argentina in 1924 was just becoming obvious to foreigners; indeed, from this time on the stability and general security of the nation's obligations were not seriously challenged. The prices of Argentine bonds became more than ever independent of internal fluctuations, and were rather reflections of the American capital market. Series D completed the large loan authorized in 1923 for the reduction of the floating debt. A post-war minimum was reached by the floating debt at the end of 1925, at 213,000,000 gold pesos; from this figure it subsequently rose, although more funding loans were issued.

Between October, 1925, and April, 1926, there was no activity, but at the end of the latter month a $20,000,000 issue was made at a better price than any previous

[52] *Ibid,* June 3, 1925.

[53] Although again overbid by Chase Securities and Blair and Company, who offered 93.53 per cent as against 93.50. *La Prensa,* September 17, 1925.

one had obtained, in spite of a very weak internal situation. No budget had been authorized by the congress, and President Alvear was finally forced in April to extend that of 1925.[54] Grain prices had fallen 30 per cent from the level of the previous year, and the exchanges were declining. Exports were so low in February that bank funds ordinarily employed in financing the harvest and movement of the crop were unemployed. With money rates low, the government could borrow from the banks at low cost.[55] The depression continued through the year; but the credit of the government was good abroad and competent reporters thought that the situation had never been sounder, and that the only way to improve the situation was to let the country enjoy the blessings of a convertible currency.[56]

The $20,000,000 loan was to be used for partial consolidation of the floating debt, of which the Bank of the Nation still held something over 300,000,000 paper pesos, or about $130,000,000. In September, 1926, $16,900,000 of 6 per cent bonds were sold to provide funds for public works, which meant, in fact to reduce the accumulated indebtedness of the State Railways. There were visible improvements in business late in 1926, and the crop was an extremely fortunate one. In 1927 the general position was again favorable, and when early in the year the five year loan for 27,000,000, matured, it was funded on the best terms obtained up to that time. Argentine credit was referred to in flattering terms.[57] The budget for 1926 had been approved

[54] *Economist,* 1926, I, 996.

[55] *Ibid.,* p. 742.

[56] *Ibid.,* II, 548. The British Coal strike occurred in this year and caused freight rates to rise. Much of the crop was carried over to 1927 to swell its export figures.

[57] *Times,* March 4, William A. Sholten, of the First National Corporation, an institution much interested in Argentine affairs, ranked this nation's credit seventh among foreign powers.

late in August of the same year; in spite of the delay it was only slightly different from that of 1913. The budget for 1927, sanctioned with unusual promptness in February of the same year, provided for expenditures of unparalleled magnitude with revenues changed only by a rich optimism as to yield.[58] In May, 1927, another loan for $21,200,000 to be used for public improvements, was sold for a still better price to the Morgan group. There was nothing remarkable about the operation; it merely reflected the rising credit of the nation, as it evidenced by general prosperity and exchange quotations. The situation continued to improve, small imports of gold were made during June and July, which would have probably been larger had the Conversion Office been reopened. By August gold imports had reached considerable magnitude, and the decision of the government to reopen the Conversion Office had no immediate practical effect, since even when "closed" it would exchange paper for gold. Since 1914 this institution has served only to limit the rise in value of the peso, as compared with gold, instead of holding its value up to that of gold, ordinarily regarded as the main function of a conversion agent.[59]

Immediately following the return to gold a new loan was offered in New York for $40,000,000, called State Railway Bonds, to be used to fund a floating debt of

[58] Compare Chart IV of revenues and expenditures. The Buenos Aires correspondent of the *Economist* gives interesting reports of the budget and general economic conditions, of which there is no parallel unfortunately in American financial papers.

[59] This matter is treated in more detail in the following chapter. It must be mentioned that the Bank of the Nation tried to check inflation resulting from gold imports by keeping $100,000,000 of the gold in its vaults, and not exchanging it for currency at the Conversion Office.

the State Railways, accumulated since the War.[60] The bonds were offered by Blair and Company and the Chase Securities Corporation, who thus resumed their former position as Argentine bankers after an interval of two years during which the Morgan group had held sway and had negotiated five long term loans.[61] The exchanges had already been favorable and the transfer of this $40,000,000 was seriously felt in the world's gold markets. The peso was over par in New York from which the heaviest gold shipment of the year was made; gold was also drawn from South Africa and the Bank of England, where the difficulty of clinging to the gold standard was increased. Great prosperity continued through the closing months of 1927, money was easy, the banking position strong, and import trade was beginning to swell. Under the circumstances the internal 6 per cent bonds rose to over par in Buenos Aires, and the external markets for Argentine securities so improved that the $20,000,000 loan of February 1, 1928, was issued with a coupon rate of 5½ per cent. Considering the loan as of thirty-four year maturity, the total cost of the money was for the first time less than 6 per cent.

This was the last long term loan issued in any external market by the Argentine government. There were changes in both internal and external conditions that caused the suspension of borrowing. The external

[60] A complete account of the consolidation of the floating debt is given in the *Memoria de Hacienda*, 1927, p. 31 and following. Some of these loans were internal; according to the figures of the Finance Minister about one-third of bond emissions were internal. *Ibid.*, p. 58.

[61] The successful group had been represented in this case, as in others, by Tornquist and Company of Buenos Aires. Immediately thereafter a $12,000,000 short term loan was negotiated by Morgan and Company, and the National City Company.

factors were undoubtedly of greater importance. In 1928 Irigoyen was re-elected president in a most unusual campaign during which his attitude was entirely passive and his principles unexpressed; but it was inferred from the general sentiment of his branch of the Radical Party that one of his policies would be unfriendliness to foreign capital,[62] and to funding operations in foreign markets.

It was hardly necessary to say that the New York money market was changing. In April, 1928, a $12,000,000 loan had been renewed by the Argentine for six months at 5¼ per cent, in October of the same year 7½ per cent was asked for renewal, and in consequence of the easy internal market, the obligation was repaid.[63] American capital was still emigrating, to be sure; but money rates discouraged government issues, and investors were seeking more speculative possibilities. In the Argentine, the separation of the two periods is distinct enough. It was at the end of 1928 that American private capital first became noticeable, and it was at this time that American money ceased to be invested in government bonds.[64] The penetration of American capital was especially marked in utilities; telephone, light and power companies were sold to American companies with increasing frequency, and even railroad stocks began to fall into their hands.

The end of this definite cycle is a favorable vantage point from which we may summarize other closely related political and economic phenomena. The gravest fact in the first post-war decade was the disorganization of the national government, as compared with the high plane upon which it had been conducted under

[62] *Economist,* I, 825, 1081.

[63] *Memoria de Hacienda,* 1928, I, 641.

[64] Exceptions must be made for some of the provincial issues, which were made without much regard to cost.

Saenz Peña just before the War. There was actual thievery in the management of some government enterprises and probability of it in many others. But the most distressing characteristic of the political machine was its sheer inefficiency, its inability to take a definite course of action, especially with regard to financial matters. As has already been pointed out, the chronic indecision and obstinacy of Congress in matters relating to the budget has been the chief factor in reducing Argentine finances to the present wretched state; it has practically forced upon the president the exercise of extensive powers. In no single year since 1913 had the budget been thoroughly revised, and in many cases, even the slightly modified versions approved were not passed until the fiscal period was already well under way. When Irigoyen, old and feeble, became president in 1928, he brought with him an inordinate desire to control all administrative detail, with the best intentions perhaps, but with disastrous results. The bureaucratic inefficiency of his administration, toward which the government had already been tending, had never been equalled in Argentina, and it was one of the important factors in his downfall.

## VI. PROVINCIAL FOREIGN LOANS

Provincial loans are as old as the foreign debt itself. The Buenos Aires loan of 1824 was a provincial loan. After the Argentine had become a unified nation, other provinces borrowed in London, both during the boom in foreign bonds from 1870 to 1873, and during the late eighties. There was universal default after the Baring crisis, and provincial obligations were assumed by the federal government. Thereafter the volume of provincial borrowings was not great,[65] until the New York

[65] Some provincial loans were floated between 1908-1912, chiefly in France.

money market began in 1925 to display a lively but undiscriminating interest in foreign securities. Forthwith the provincial loans appeared, with their beautifully engraved certificates. There were no special circumstances surrounding these issues such as the establishment of a national banking system in 1887, involving the national government; on the contrary, the responsibility of the national government was explicitly and repeatedly denied.[66] The loans were regarded as disadvantageous both to the borrowers and the lenders. The proceeds were rarely put to productive use. The borrowing merely represented the desire of local politicians for ready money and their willingness to leave the troubles of repayment to their successors.[67] The two American banks in Buenos Aires have been active in this traffic from the very beginning, both in providing temporary loans and in negotiating long term ones. They were not alone in the field; it was this type of business that was especially sought by the travelling salesmen of American investment houses.

There is a large subjective element in the evaluation of such securities. The American investor for many reasons cannot construct any really logical basis for weighing their merit. In actual experience the market was much less certain, and a much wider spread was required before they would be purchased by bankers. The following table gives the amount, banker's price, and market price of the loans issued 1925-1930 in the United States.

There is a great range of quality in the securities of these provinces and municipalities, from those of the

[66] *Economist*, 1925, I, 1248.
[67] *Ibid.*, II, 194.

PRICES AND TERMS OF MUNICIPAL LOANS ISSUED IN THE UNITED STATES

| Title | Amount | Rate. Per cent | Time in years | Banker's price. Per cent | Cost to government. Per cent | Issue price. Per cent | Yield to investor. Per cent |
|---|---|---|---|---|---|---|---|
| City of Buenos Aires 6½ per cent Loan of 1924 | $8,490,000 | 6½ | 31 | 94 | 6.97 | 96.5 | 6.77 |
| 6 per cent of 1927: | | | | | | | |
| Series C—2 | 3,396,000 | 6 | 33 | 95.03 | 6.36 | 97.5 | 6.17 |
| Series C—3 | 3,396,000 | 6 | 33 | 95.64 | 6.32 | 98.5 | 6.11 |
| City of Córdoba: | | | | | | | |
| 10 year Bonds of 1927 | 2,547,000 | 7 | 10 | 89 | 8.67 | 97 | 7.43 |
| 30 Year Loan of 1927 | 4,669,500 | 7 | 30 | 94¼ | 7.48 | 98.75 | 7.10 |
| City of Santa Fé Secured Loan of 1927 | 2,122,500 | 7 | 18 | 87.5 | 8.36 | 94.5 | 7.56 |
| City of Tucumán Secured Loan of 1928 | 3,396,000 | 7 | 23 | 92.5 | 7.70 | 96.5 | 7.32 |

PRICES AND TERMS OF PROVINCIAL LOANS ISSUED IN THE UNITED STATES

| Title | Amount | Rate. Per cent | Time in years | Banker's price. Per cent | Cost to government. Per cent | Market price. Per cent | Yield to investor. Per cent |
|---|---|---|---|---|---|---|---|
| Buenos Aires Secured Loan of 1925.. | $14,472,000 | 7½ | 22 | 92 | 8.30 | 99 | 7.6 |
| Public Works—1926..... | 10,600,000 | 7 | 26 | 85 | 8.43 | 96.5 | 7.3 |
| Refunding Loan of 1928..... | 41,101,000 | 6 | 33 | 92.41 | 6.56 | 96.5 | 6.25 |
| Refunding Loan of 1930..... | 11,675,000 | 6½ | 31 | 90.5 | 7.275 | 95.5 | 6.85 |
| Province of Córdoba 7 per cent Loan of 1925 ..... | 5,943,000 | 7 | 17 | 87 | 8.46 | 95 | 7.53 |
| Province of Mendoza Secured Loan of 1926 ..... | 6,500,000 | 7½ | 25 | 86 | 8.9 | 98.75 | 7.61 |
| Province of Santa Fé 7 per cent Public Credit Loan of 1924..... | 10,188,000 | 7 | 18 | 95 | 7.51 | 96 | 7.40 |
| Province of Tucumán Loan of 1927.. | 2,122,500 | 7 | 23 | 87.75 | 8.19 | 94.5 | 7.50 |

City of Buenos Aires, which are only slightly inferior to national government obligations, to those of obscure towns far in the interior, entirely unfamiliar to foreigners, and of slight acquaintance even to Argentines. The name Mendoza might be familiar to the investor well acquainted with history; but Santa Fé, Tucumán and even Córdoba would most probably be new names to the person not particularly interested in the region. It is remarkable that such securities could be sold at all, especially at the near par price obtained. Judging from the spread, or seller's margin, which existed, the investment banking community must itself, in some cases, have been surprised. It is absolutely impossible for the individual investor to obtain for himself adequate information about these governments. Even the most reliable investment services supply vague, shallow and obviously incomplete information uniformly obtained at second-hand. The investor usually buys these securities on the assurance of his investment banker, in whom he reposes confidence that the risk is not excessive; indeed, he would almost certainly come in contact with national government securities in the same way.

It is difficult enough to estimate the financial position of the national government at any time, because of the unsystematic presentation of the accounts and the delay in their appearance. An attempt to discover the circumstances of a provincial or municipal treasury is much more puzzling. Only occasional reports are published, of whose accuracy one can never be certain, and copies of which are entirely unavailable to the American investor. It is unquestionably true that the bankers do their best to keep abreast of the situation, and their agents have boasted that they knew more of the state of the finances of some political subdivisions than the finance ministers themselves—a comparison equally

significant as evidence of bankers' efficiency and as proof of the untrustworthiness of any such government. Most of the Argentine provinces and municipalities are unsatisfactory risks for foreign investors; their records show it, and it is common knowledge to the persons familiar with the subject. It may be remarked that an entirely different class of banking houses interest themselves in this type of business than those dealing with the national government. All of these loans except those of the city of Buenos Aires are now either in complete default, or are only partially served, and worst of all, suspension in the case of the stronger provinces of Buenos Aires and Sante Fé appears to have been occasioned not by pressing circumstances but by purely political motives.

## VII. DEVELOPMENT OF THE INTERNAL LOAN MARKET

The internal loan market had always been conspicuous by its weakness; not until 1927 did it become prominent enough to attract the notice of financial observers. A study of the ownership of the National Mortgage Bank cédulas then disclosed that less than 10 per cent of the 1,230,000,000 paper pesos outstanding were held abroad.[68]

It had been generally considered that the reverse was true, that 90 per cent were owned by foreigners, but a considerable return of these mortgage bonds had occurred during and immediately after the War, while new issues were almost all taken by Argentines. It is probable that the survey made by the Mortgage Bank

[68] *Ibid.*, 1926, I, 838. According to the *Memoria de Hacienda* for 1925, page 440 and following, where the bank's report is given, most of the cédulas were held in Holland, Spain and England. Although only $1,333,850 were served in the United States, it was estimated that 55,000,000 were owned by Americans but kept on deposit in Buenos Aires.

underestimated foreign holdings because a great many foreign owned cédulas were kept on deposit in Buenos Aires and their foreign ownership was difficult to detect. It is undeniable, however, that Argentina was furnishing a considerably increased part of its own capital needs in this respect. An improved market for internal bonds became very evident in the first quarter of 1927. It was taken to indicate declining profits and investments in the rural industries.[69] The movement continued unabated until the beginning of 1928, at which time it was estimated that 1,500,000,000 paper pesos of Argentine securities had been taken within the country. The aggregate did not seriously decline until speculation became the order of the day in 1929, when capital was attracted to New York by the high rates prevailing there.

The importance of the internal debt is not an entirely simple matter. Statistically the changes since 1921 have been as follows:

FUNDED DEBT—ARGENTINE REPUBLIC

In millions of paper pesos

| | External | Internal | Total |
|---|---|---|---|
| 1921 | 571 | 707 | 1278 |
| 1922 | 536 | 759 | 1295 |
| 1923 | 539 | 777 | 1316 |
| 1924 | 687 | 836 | 1524 |
| 1925 | 833 | 911 | 1744 |
| 1926 | 888 | 957 | 1845 |
| 1927 | 1104 | 1052 | 2156 |
| 1928 | 1112 | 1156 | 2268 |
| 1929 | 1071 | 1225 | 2295 |
| 1931* | 1013 | 1283 | 2295 |

* June 30, 1931.

The aggregate internal debt must be further qualified, since it will be remembered considerable parts have

[69] *Ibid.*, 1927, I, 972.

been sold abroad in terms of foreign currencies. In 1930 the internal gold debt amounted to 175,000,000 gold pesos, nearly 400,000,000 paper pesos, or about one-third of the internal debt; but some of these gold bonds, probably most of them outstanding at the time, had been issued in Buenos Aires. In 1914 the internal gold bonds represented 29 per cent of the funded debt, in 1931 about 17½ per cent, and a smaller portion were really external. As nearly as can be estimated, about one-half of the Argentine funded debt is now held within that nation, as contrasted with about 14 per cent so held in 1914. Most of the internal gold bonds issued abroad before the war have now been redeemed, and these have been replaced by paper issues floated in Buenos Aires. Properly speaking, therefore, the internal debt has been increasing at a much more rapid rate than the external, the growth of which has been largely held down by the redemption of the so-called "internal" gold obligations.

The volume of issues on the Buenos Aires market from 1922 to 1931 is indicated in the following table:

INTERNAL GOVERNMENT LOANS 1922-1928 [70]

| Year | Total issues under laws of given year in millions of paper pesos |
|---|---|
| 1922 | 60.0 |
| 1923 | 114.0 |
| 1924 | 72.6 |
| 1925 | 105.0 |
| 1926 | 81.4 |
| 1927 | 189.1 |
| 1928 | 42.0 |
| 1929 | 21.0 |
| 1930 | 15.0 |
| 1931 | 140.0 |
| | 840.0 |

[70] Compiled from Moody's *Manual*, 1932.

The decline of issues in 1928 was due to the lack of applications by the government, and not to any stringency or weakness of the market. Irigoyen's administration refused to take advantage of either internal or external loans, probably fearing them as an admission of weakness, and preferred to let the deficits accumulate into a floating debt of well over 1,000,000,000 pesos.

Internal loans have been connected with one of the gravest abuses of Argentine finance, the habit of authorizing expenditures to be paid for by bonds, for which there is no prospect of sale at the stipulated price. The bond market has stood up rather well under such heavy potential issues and the budget deficits which they represent.

One hopeful aspect of the development of an internal market is found in the fact that as the bondholders' numbers increase a powerful restraint will be instituted over reckless financial practices. This tendency can already be seen in the Corporation of Argentine Bondholders, an active organization of internal bondholders who keep in close touch with national finance, and publish an annual report dealing with Argentine securities.[71] When a sufficiently large number of the most influential citizens find it to their profit to become interested in the fiscal situation, improvement can reasonably be expected.

## VIII. RESULTS OF THE LOANS AND DIFFICULTY OF REPAYMENT

The purpose of Argentine borrowing in the post-war period, both internal and external, was only in small part to provide for productive improvements. In an

[71] The Corporación de Tenedores de Títulos y Acciones is now in its tenth year, and its annual report is perhaps the most comprehensive published on Argentine finance.

analysis of the loans floated from 1922 to the end of 1927, during which the greater part of the funded debt was created, the finance minister has made the following classification:

LOANS CONTRACTED, 1922-1927, ACCORDING TO PURPOSE[72]

In thousands of paper pesos

| Purpose | Amount | Per cent of total |
|---|---|---|
| Consolidation of the floating debt, including that of railways and sanitary works departments | 545,650 | 45.3 |
| For various public works, and sanitary works | 472,124 | 39.4 |
| Armaments | 146,798 | 12.1 |
| For supplementary credits, or unbudgeted expenditures | 39,189 | 3.2 |
| | 1,203,761 | 100.0 |

Of the total increase in the funded debt, $813,884,525 paper pesos, or approximately two-thirds, was external.[73] Examination of the preceding table shows that only one category could in any sense be considered as productive expenditure. Allowing full credit for this, unproductive borrowing would amount to 60.6 per cent of the total. The federal government has unquestionably done useful work in its extension of aid for the construction of sanitary systems and other public health works through the provinces; even the construction of post offices, public buildings or other works, of whose productivity there is some doubt, may be condoned. But less than 40 per cent of the increase in the funded

[72] *Memoria de Hacienda*, 1927, p. 58.

[73] This does not contradict the conclusion expressed above that the internal debt is of increasing importance, since the latter continued to grow after 1927, and at a more rapid rate.

debt has arisen from such causes.[74] By far the greater part of the burden has been incurred as the result of inefficient management of state enterprises and an unbalanced national budget, neither of which have resulted in any social gain. The net effect of Argentina's foreign loans has been temporarily to relieve the Buenos Aires banking system of its accumulation of government paper, but eventually to increase the total debt. Serious budget reform and true economy have only been considered when the possibilities of borrowing have been completely exhausted. As soon as the floating debt has been reduced by funding, industrious politicians have begun to build it up again. Reference has been made from time to time to the indirect effect of the import of capital on the general structure of Argentine economy; but no complete estimate can be attempted in this study.

It is more difficult to say what the effects of the borrowing have been and will continue to be in the United States. Reference has been made to the desirability of foreign loans as a stimulus to exportation; as such, American investments in Argentina must have had some part in encouraging a so called favorable balance of trade. When we descend from the general to the particular, and try to discover if the exportation of capital to Argentina has tended directly to bring about a commensurate flow of goods, the matter is more involved.[75] The *Economist's* correspondent thought that

[74] Loans may be called productive in several senses. Three types may be distinguished as follows: those which result in an increased state revenue, those which increase production, and those which increase the exports of the country. Most of the money spent by the Argentine for public works could be put in the first category, some in the second, and none could be included with certainty in the third.

[75] It is clear that the balance of trade with any particular country would not necessarily be effected by the export of capital.

the loans did not help American industries at all, except perhaps in giving them the inside track on naval repairs.[76] Trade figures show fluctuations in the balance since 1914 to have been rather unusual:

UNITED STATES TRADE WITH ARGENTINA, 1914-1931

In millions of dollars

| Year | Exports | Imports |
|---|---|---|
| 1914 | 45.2 | 56.3 |
| 1915 | 52.8 | 94.7 |
| 1916 | 76.9 | 116.3 |
| 1917 | 107.1 | 178.2 |
| 1918 | 105.1 | 228.4 |
| 1919 | 155.9 | 199.2 |
| 1920 | 213.7 | 207.8 |
| 1921 | 110.8 | 59.9 |
| 1922 | 95.5 | 85.7 |
| 1923 | 112.8 | 115.3 |
| 1924 | 117.1 | 75.3 |
| 1925 | 148.8 | 80.2 |
| 1926 | 143.6 | 88.1 |
| 1927 | 163.5 | 97.2 |
| 1928 | 178.9 | 99.4 |
| 1929 | 210.3 | 117.6 |
| 1930 | 129.9 | 71.9 |
| 1931 | 52.6 | 36.0 |

The table shows a very active trade during the war years, especially of American imports, and that there became a rather constant quantity thereafter. From 1922 to 1928, when the largest capital movements took place, exports to Argentina rose consistently, indicating a possible direct relationship. There is a considerable lag in the appearance of a favorable balance, and it is also clear that increased exportation was not equal to the volume of investment, most of which was not placed so as to favor its expenditure for products of

[76] *Economist*, 1927, II, 329.

the United States. In these days of increasing nationalism, foreign investments are considered most desirable when they result not only in an immediate demand for the products of the creditor country, but create an enterprise whose constantly recurring needs will always be supplied by it. British railways in Argentina are a case in point. American capital in Argentina, at least, has done very little to build up such an immediate demand.

The effect of foreign loans on the American investor has not been negligible.[77] Argentina has not defaulted on her external debt, but the prospect is not secure, and the bonds have been selling since 1931 at about 50 per cent of their face value, prices which have probably caused a considerable repatriation of the securities, and a much more rapid amortization than originally computed.[78] In the meantime the American investor seeks to fasten the blame upon somebody. In the case of provincial and municipal loans the banking houses who sold the bonds are qualified candidates; but in reference to the national government it is more difficult to fasten the responsibility on any one party. The mere fact that Argentina has maintained payments up to this time, while the greatest and wealthiest nations of the world have been repudiating their pledges, rebounds greatly to her credit, and is a strong indication that the matter was not greatly overdone.

The nation has been a good risk and although her finances have been shamefully despoiled by simple thiev-

[77] The Corporation of Foreign Bondholders Act of 1933 created an organization to aid American investors. If it follows the course of its British namesake its functions will be largely informatory.

[78] The Argentine 5's of 1909 have since March, 1933, gone to higher quotations in New York because they are payable in francs, marks, pounds, dollars or pesos, at the option of the holder.

ery, bureaucratic disorder, and fatal procrastination, she has been the victim of circumstances as well as of her own folly. Had not the extreme price decline for agricultural products occurred, the present critical situation would not exist.

The difficulties of maintaining payments on the external debt are of two kinds, raising the revenue, and transferring it into dollars, and they are very closely related. Service of the public debt required 31.9 per cent of the 1932 budget, according to estimates made during the year; but not all of this was needed for the external debt. According to this same budget, the expense of external as compared with internal debt service would be as follows:

COST OF SERVICE OF THE NATIONAL PUBLIC DEBT [79]

In thousands of paper pesos

| Type | Internal debt | External debt | | Total at real exchange |
|---|---|---|---|---|
| | | At the par of exchange | At real rates of exchange | |
| Consolidated interest ..... | 86,610 | 53,798 | 79,035 | 165,646 |
| Amortization ..... | 36,700 | 36,787 | 47,297 | 83,997 |
| Total ..... | 125,641 | 90,904 | 126,750 | 252,391 |
| Floating interest... | 35,648 | 3,950 | 5,082 | 43,753 |
| Total debt interest. | 122,258 | 57,748 | 84,117 | 209,398 |
| Amortization ..... | 36,700 | 36,787 | 47,297 | 83,997 |
| Grand total.... | 161,289 | 94,854 | 131,832 | 296,144 |

The classification of the debt into internal and external is nominally in accordance with actual distribution of ownership; but, as has been shown, it considerably underestimates external holdings. As a mat-

[79] Data from *Economic Review,* Banco de la Nación, September, 1932, p. 138.

ter of fact 154,806,600 paper pesos were purchased for the service of the foreign debt in 1932,[80] and about the same amount was required for the internal debt. The combined amount was about 35 per cent of total expenditures and a still larger proportion of total revenues. Since the service of the foreign debt required only 11.57 per cent of the foreign exchange sold by the control commission during 1932 it would seem that the problem of raising funds is of much greater importance than that of transfer. Nevertheless, a great deal of pressure for some form of debt suspension comes from those desiring relief from present exchange restrictions, especially from importers whose trade is affected. Every party represented in Congress has voiced at one time or another the desirability of suspending sinking fund payments on all of the funded debt. This would result in a reduced expenditure of eighty million paper pesos and would afford some relief to the exchanges. But the executive has so far maintained a policy of complete service, and it now appears that if any change is made, it will be a complete suspension of service on the foreign debt, consequent upon hard necessity. If the series of bountiful harvests which the Argentine has been enjoying is broken, payments will almost certainly be stopped. The longer the government can hold its present policy of complete payments and steady amortization, the farther it will have travelled toward real financial order. If it manages to weather the crisis through a reorganization of its fiscal system, its credit will be high in the future.

[80] According to Statistics given by the Exchange Control Officials, *La Prensa*, January 29, 1933.

# CHAPTER V

## The Crisis in Argentina

I. Economic Situation since 1928. II. Course of the Finances. III. Prices in Argentina. IV. The Central Bank.

### I. ECONOMIC SITUATION SINCE 1928

Since 1928 Argentina has passed from great prosperity to severe depression, although, in the opinion of so competent an expert as Sir Otto Niemeyer, the decline has not been as marked as in the rest of the world. With one exception the annual production has been favorable, as appears in the following table of exports:

Quantities of Exportation in the Years 1927 to 1931, by Groups of Products

In thousands of tons

| Year | Grazing | Agriculture | Miscellaneous | Total |
|---|---|---|---|---|
| 1927 | 1650 | 16,263 | 827 | 18,740 |
| 1928 | 1323 | 15,010 | 696 | 17,029 |
| 1929 | 1268 | 14,761 | 674 | 16,703 |
| 1930 | 1212 | 9,279 | 536 | 11,027 |
| 1931 | 1149 | 16,877 | 451 | 18,477 |

Whatever the causes of depression, the niggardliness of nature has not been one of them; even the smallest of these exports is equal to the average for the years 1920 to 1926 inclusive, and the production of 1927 exceeded the previous record by more than four million

tons. But the value of these products declined rapidly during the same period, as follows:

QUANTITY AND VALUE OF ARGENTINE EXPORTS

| Year | Quantity. In thousands of tons | Value | |
|---|---|---|---|
| | | In millions of gold pesos | In millions of dollars |
| 1927 | 18,740 | 1,009 | 974 |
| 1928 | 17,029 | 1,055 | 1,017 |
| 1929 | 16,703 | 954 | 908 |
| 1930 | 11,027 | 614 | 514 |
| 1931 | 18,477 | 641 | 427 |

The dollar figures show the extent of the decline of gold prices, and the peso figures show the modification introduced by the depreciation of the currency. It may be argued that variations within the groups of commodities may have resulted in the production of less valuable products, making invalid the use of the figures employed. There is some weight to this objection, especially as regards fluctuating quantities of wheat, corn and linseed produced. But if the effect is not entirely negligible, it at least cannot account for any considerable part of the fall in total value.[1]

The decline in the price level of agricultural products has been the dominant factor in the Argentine balance of payments since 1928. When Irigoyen reassumed the presidency in October of that year prices had already begun to decline, and the movement has since continued uninterruptedly, as expressed in terms of gold. In the United States, the prices of farm products reached in 1932 a point some 50 per cent below the 1926 level, and in 1933 were for a time only 40 per cent

[1] *Dirección General de Estadística*, Boletín No. 209, p. 21, gives exports of cereals and linseed according to tonnage, as well as of other products.

of that level.[2] In Argentina the fall was probably still more marked. Since the entire community is so peculiarly dependent upon agricultural and grazing products, great difficulties might be expected.[3]

Other factors in the balance of payments which might have relieved the Argentine situation likewise became unfavorable in 1928. It has been estimated that 500,000,000 paper pesos represent Argentina's invisible payments to the exterior, such as immigrants' remittances, service of the various governmental debts and of private capital, travelers' expenses, etc. In lieu of a sufficiently favorable balance of trade, importations of capital might make up the deficit, and even leave a surplus, as in 1927.

Investments in government bonds were practically suspended in 1928, so that whatever capital entered the country did so in the form of direct investments. These were large enough to postpone the evil day of reckoning for a time at least. Tornquist, in his Balance of Payments, using the year October 1 to September 30, estimated that imports of capital, both in direct and government investments, fell from 160 millions of gold pesos in 1926-1927, to 110 millions in 1927-1928, to 60 millions in 1928-1929, to 190 millions in 1929-1930, and to 50 millions in 1930-1931. The spurt of 1929-1930 represents short term loans made by the national government and provinces, to which we shall refer later. Except for this one year, direct investments represent nearly the entire amount of capital imports, reaching

[2] United States Department of Labor, *Monthly Labor Review*, August, 1933, Vol. 37, p. 450, No. 2.

[3] According to the report of the *Economic Review* for September, 1931, the gold price decline in Argentina in August of that year reached 63.9, with 1926 as the base year, which was considerably below that in either Great Britain or the United States.

in 1927-1929 a volume exceeding 160,000,000 gold pesos, sufficient to offset a very considerable trade deficit.

There was a curious reaction to this importation of United States capital, accompanied as it was by an increased volume of inter-American trade. Investments often took the form of purchasing British enterprises long established in the field; even control of the railways was at one time threatened. At this stage the Briton's patriotism was touched, and with a superb disregard for all the laissez-faire philosophy as to capital movements, industriously inculcated into Argentine minds for more than a century, road after road passed resolutions either disqualifying or limiting the holdings of those neither British nor Argentine.[4] The chief objection to United States ownership, apparently, lay in the fact that supplies, which had previously been uniformly obtained from British sources, would probably be purchased by the new management from American producers. In a series of articles referring to the general phenomenon of American purchases of British enterprises, which was of course not limited to Argentina, the editor of the London *Economist* expressed his oppositions to any restrictions.[5] His opinion was hardly typical, however, and the incident illustrates the variable nature of current economic philosophy.

## II. COURSE OF THE FINANCES

The conduct of national finances fell to its lowest phase during the two years of Irigoyen's administration. Rigorous silence was maintained regarding these matters, either from policy or through ignorance. The practice of regular reports followed by previous governments was abandoned, with the result that the fiscal

[4] *Economist*, 1929, I, 1208.
[5] *Ibid.*, pp. 1292, 1350, 1386.

laxity in practice could only be guessed at until after Irigoyen's downfall. The budget revenues and expenditures for this period were then published as follows (in millions of gold pesos):

| Year | Revenues | Expenditures | Deficit |
|---|---|---|---|
| 1928 | 319 | 389 | 70 |
| 1929 | 348 | 436 | 88 |
| 1930 | 324 | 482 | 158 |
| 1931 | 336 | 390 | 54 |
| 1932 | 395[6] | 370 | plus 25 |

Revenues held up well through the crisis; but expenditures outran them as usual. No attempt was made to fund these deficits. The floating debt had increased to 1,234,275,000 paper pesos, or 544,000,000 gold pesos, by the end of 1931, an amount approximately equal to one-third of the total loans and discounts of all Argentine banks. For most of this time the credit of the government was high enough to permit borrowing even in foreign markets, at only a slightly higher price than had been paid for the last long-term loan. There were continuous rumors of impending foreign loans, and it is known that several American offers were rejected.[7] The internal money market was easy for short term paper in 1928-1929, so that the situation was analogous to that of 1922-1923, and the same policy was followed, of borrowing at short term in Buenos Aires.

The general economic situation changed rapidly after 1928, the peak year of Argentine prosperity. Some 200,000,000 gold pesos in gold had been imported in the two years and a half during which cash payments were maintained. Nearly three-fourths of this metal was held by the Bank of the Nation, without exchange into currency, so that there was little direct effect on the means

[6] It is almost certain that the revenues were not realized.

[7] *Economist,* 1929, I, 1166; II, 572.

of payment. Prices and foreign investments began to decline late in 1928, and in 1929 gold was exported rather freely, the net loss for the last seven months of the year being roughly 130,000,000 gold pesos. Most of this was drawn from banks, and had no serious effect in restricting the currency.[8] But it was clear that any additional gold exports must be taken from the Conversion Office, which would mean a certain and violent contraction of both currency and credit. As early as June, Irigoyen had been asked to suspend payments. The stock market crash in the United States had failed to relieve pressure on the peso, and faced with the prospect of small crops for the coming season, the president closed the Conversion Office on December 17, 1929.[9] At the same time authorization was given, under the law passed during the emergencies of 1914, but never before used,[10] for a rediscount up to 200,000,000 paper pesos at the Bank of the Nation.

The decision to abandon the gold standard, without serious effort to retain it, was greatly influenced by the large amounts of government paper held by the banks, and the practical certainty that more would come. Bulking as large as one-third of the bank credit outstanding, the floating debt was like a great indigestible lump, which any amount of external pressure would leave unchanged. Private borrowers would be completely excluded by the squeezing process.

In the first half of 1930 the peso declined spectacularly. But the national credit did not suffer severely; Argentine bonds were still quoted in the nineties in New York. A foreign loan again became the subject of speculations. The government was beginning

[8] *Economic Review,* August 1928, December, 1929 p. 173.

[9] Irigoyen had refused offers of long term loans from American bankers in 1929.

[10] The actual rediscount was not made until a year later.

to encounter resistance to further borrowing in Buenos Aires, and a loan was in many ways desirable. American underwriters were, however, exceedingly cautious. A six-month loan for $50,000,000 was obtained from American bankers in April, and in June £5,000,000 was secured from Baring. These operations provided considerable relief for the government; but it may be inferred that the situation was becoming desperate before such heavy potential burdens of repayment were put upon the exchange. The nation began to fall behind in its payment of salaries and routine expenses, indicating the straitened condition of the treasury. Financial reports still remained unpublished. It is said that the bankers required virtually a direct claim on the gold reserves before these loans were made. It is difficult to believe that a long term loan was ever considered remotely possible, under the circumstances.[11]

In September, 1930, the wave of unrest which had swept the rest of South America finally touched Argentina, and the Irigoyen government was overthrown. Opposition had been developing for some time, and the new government enjoyed comparative prestige. The $50,000,000 loan was renewed for one year at 5 per cent, a favorable rate under existing conditions. The provisional government, led by the gallant but unfortunate General Uruburi, remained in power until February, 1932, during which time far reaching reforms were attempted. A deficit of 698,000,000 paper pesos for 1930 was announced; this later turned out to be

[11] The *Economist's* correspondent believed that a long term loan was to come in the fall of 1930. Bank of the Nation's *Economic Review* for February, 1932. Gold exports were made early in 1931; negotiations for a loan were then going on, and it became desirable to protect the peso.

an exaggeration. Other corrupt acts of the preceding administration were alleged, according to political custom in Argentina; but the findings are to be somewhat discounted.

The first serious effort to balance the budget was made by the provisional government. A variety of new taxes were imposed, and substantial reduction was made in expenditures. The new charges included an emergency income tax, a wide increase in fees for various governmental services, and additional levies on imports and internal consumption.[12] Even under these conditions revenues reflected declining business activity. But the deficit for 1931 was only 50,000,000 gold pesos, and the deficit for 1932 has been still smaller. Congress met in February, 1932, for the first time since the revolution and has displayed more activity than usual. A great deal of pressure in the direction of economy has been brought to bear upon the government; the stronger section of the press has been remarkably vigilant. The method of constructing the budget has not yet been modified; but the public watchfullness now existing has never been equaled in the past.

The government's method of handling the debt has been conspicuously unsuccessful during this period. Sometimes, as in 1923, profits can be reaped by waiting for an improved market before issuing a funding loan. In 1929 this policy was a distinct mistake. The heavy floating debt borne by Argentine even at the beginning of the depression has nearly been sufficient to wreck the entire financial system. The two short term loans contracted in 1930 in the United States and England were likewise unwise. In 1931 both bankers refused renewals, and the government was not able to raise the money from Buenos Aires banks. A compromise

[12] A more complete list is available in the *Economist*, 1932, I, 632.

was effected in both cases; half of each loan was renewed, and the other half paid partly in gold and partly by subscriptions from the banks and trust companies of Argentina. At each recurring maturity a part has been repaid and a part refunded, indicating the straits to which the government was reduced. Gold reserves of about $250,000,000 gold pesos remain at the disposal of the government, in spite of withdrawals at opportune moments for the service of the foreign debt, and for the repayment of these advances.

A serious effort to fund a part of the floating debt was made in 1932 by the issue of an internal 6 per cent loan for 500,000,000 paper pesos. It was recognized that this offering, denominated the Patriotic Loan, could be disposed of only with great difficulty. Accordingly, the act provided that 85 per cent cash might be advanced on the bonds by the Conversion Office upon presentation by the Bank of the Nation, as long as the gold cover of the currency did not fall below 36 per cent.[13] This was simply a rediscount of the bonds, or so much expansion of the currency. Only about one-fourth of the bonds were actually sold, most of the remainder having been rediscounted to meet the pressing needs of the government.

The fiscal policy of the government in paying for fixed improvements such as public works with short term loans instead of bond issues has been the occasion of much criticism from those who see in it a large part of Argentina's present difficulties. Adjustment to the declining international price level, they argue, has been delayed by the expansion of credit involved in the government policy. The results have been, in turn, high purchasing power, continued high imports, and a large unfavorable balance of trade. Decreased imports have

[13] *Economic Review,* April, 1932.

been obtained only with such a lag that an excessive depreciation of the currency has occurred. The adjustment has been more severe than had it been sudden but immediate.

Whether the adjustment of the Argentine price level to gold prices is advantageous or not is a moot question. It is clear that the national finances need reformation, and likewise that they are directly connected with the present paper standard. But the undesirability of this consequence is now being attacked less and less frequently.

### III. PRICES IN ARGENTINA

Argentina offers a particularly fertile field for the monetary theorist, because it has been almost uninterruptedly for the last twenty years on a paper standard, under conditions quite at variance with those existing elsewhere. It is true that the term "paper standard" is not strictly exact, since the Conversion Office has always accepted gold for currency when the paper rose above its bullion equivalent, a condition which existed from 1917 to 1920 and again from 1927 to 1929. At other times the exchange rate, and presumably the purchasing power of the peso, were little affected by bullion; only small amounts were used in foreign payments except when the peso was over par, or immediately after it had dropped. Banks imported gold with the peso at a premium, held it until the decline of exchange made possible a considerable profit, and then sold for export. No significant amount of such speculation was carried on when the peso was below par. At times the government itself has withdrawn gold from the Conversion Office in exchange for notes at par, and since 1931 for other security, in order to avoid the increased cost of debt service occasioned by unfavorable exchanges.

Although the Argentine exchange may be called depreciated, the currency itself is not depreciated, except in a limited sense. To speak of inconvertible paper and depreciation as things apart may seem evasive; but it is this very distinction which gives the peso its greatest interest. To label as depreciated a money which will buy more today as unsupported paper than it would buy five years ago as fine gold is not logical, even if its exchange value in terms of other currencies, gold currencies, has declined. The peso has not depreciated with reference to goods. This, after all, is the most significant thing, and one fraught with important consequences.

From the time of the Bullion Report economists have studied the behavior of paper currencies always as a manner of abnormal condition, occasioned by an overburdened national treasury, and to be corrected at any cost as soon as possible. This view of the undesirability of a paper standard may be entirely correct; but the fact remains that there has been much confusion of cause and effect in most of such studies. That inconvertible paper is always found under duress, and in very bad company, is in itself only circumstantial evidence. It is insufficient, for instance, to point to the German mark as an example of the evils of this standard; the circumstances would have wrecked any monetary system, however orthodox. Obviously the reason for the collapse of most inconvertible currencies does not lie in the nature of the currency itself but in the strain to which it has been put by the issuing governments, generally in the course of war.[14]

[14] Ricardo, in a famous passage, stated that the value of an inconvertible currency need not decline, provided that the quantity issued was not excessive. *Works*, McCulloch edition, London, 1846, p. 214.

The Argentine provides an example of the paper standard in which the necessities of government finance, although present, played a much smaller rôle. This fact removes one of the factors making for price inflation, and permits the operation of the standard in a much more normal manner. The behavior of prices under such a standard is of high theoretical interest, especially with regard to the actual factors involved.

No complete theoretical statement is attempted in this study. Some of the facts referring to prices and the exchanges can however be profitably examined in the light of existing theories. Following an objective course, we shall consider first the relation of the price system to the national economy, next the actual data of price change in the past twenty years, and finally some possible explanations of the price fluctuations and of the divergencies between these prices and those which have occurred in other countries.

Argentina's dependence upon products of agricultural and grazing industries is remarkably complete; these products constitute an overwhelming percentage of export values. In the past twenty years the prices of such commodities have fluctuated enormously; in the United States, for instance, farm products have been among those whose values have varied most. Since 1926 the Department of Labor's index for prices of farm products has declined from 100 to 45.7 in June, 1932. A still more abrupt fall has occurred in Argentina, where from the same base year, measuring in terms of gold, a minimum of 37.0 for agricultural and grazing prices was reached in June, 1932. The disparity between these figures may be attributed to the fact that transportation is deducted from the world price to give roughly the Argentine price, from which a larger proportion is taken the lower it falls. The decline of agri-

cultural prices has had disconcerting effects in the United States. In Argentina, a still more severe fall, coupled with a relatively disorganized financial structure and a more liberal extension of credit, would certainly have brought about a complete catastrophe, had not the inconvertibility of the peso provided a kind of protective buffer. In paper pesos, in terms of which the farmer pays his debts, agro-grazing prices have also declined, but only to 58.3 in June, 1932, indicating that the falling exchange value of the peso has by no means offset the increasing value of gold, but has effected a compromise result. Argentina could hardly have survived under the gold standard without complete bankruptcy. Everything of a financial nature is predicated upon the returns of rural industries, which in spite of bountiful production through the crisis, could never have provided three times the physical volume necessary to meet obligations in 1926. Mortgages would certainly have defaulted, values of all kinds collapsed, and every bank in the nation would have suspended. As it is, the financial situation in Buenos Aires has been very tense; a crop failure would probably present the alternative of a still further depreciated exchange or of complete internal financial disintegration.

Although appearing to gold standard countries to have been a widely fluctuating currency, the peso has been among the most stable of all the world's currencies in purchasing power. The Argentine price level has been remarkably constant, and exchange fluctuations have to a considerable extent merely reflected the inconstant purchasing power of gold. This is illustrated by the following comparison of prices in the United States, prices in Argentina, and exchange rates of the

peso in New York. Prices are given in two series, since the bases were shifted in 1926:

WHOLESALE PRICES IN THE UNITED STATES AND ARGENTINA, 1913-1925, WITH EXCHANGE

Rates of the peso on the dollar

| Year | Annual averages: Prices U. S.[15] | Prices Argentina [16] | Exchange rates [17] |
|---|---|---|---|
| | | | Par .965 |
| 1913 | 100.0 | 100.00 | .9829 |
| 1914 | 98.1 | 101.16 | .9638 |
| 1915 | 100.8 | 108.46 | .939 |
| 1916 | 126.8 | 122.62 | .9724 |
| 1917 | 177.2 | 151.72 | 1.0144 |
| 1918 | 194.3 | 167.01 | 1.0093 |
| 1919 | 206.4 | 171.53 | .9902 |
| 1920 | 226.2 | 179.64 | .907 |
| 1921 | 146.1 | ..... | .73 |
| 1922 | 148.8 | 130.42 | .8182 |
| 1923 | 153.7 | 134.85 | .7857 |
| 1924 | 149.7 | 144.97 | .7813 |
| 1925 | 158.7 | 146.94 | .9138 |
| 1926 | 153.3 | 132.44 | .9215 |

WHOLESALE PRICES IN THE UNITED STATES AND ARGENTINA, 1926-1931

1926 = 100

| Year | Prices, U. S. | Prices, Argentina | Exchange rates |
|---|---|---|---|
| 1926 | 100.0 | 100.0 | .9215 |
| 1927 | 95.4 | 98.1 | .9630 |
| 1928 | 96.7 | 98.5 | .9648 |
| 1929 | 95.3 | 96.4 | .9513 |
| 1930 | 86.4 | 92.2 | .8551 |
| 1931 | 73.0 | 89.0 | .6674 |
| 1932 | 64.8 | *90.5 | .5844 |

* To September.

[15] U. S. Department of Labor, Bureau of Labor Statistics, *Monthly Review*, March, 1926, p. 46.

[16] *Review of Argentine Economics*, XXIV, Nos. 143-144, May-June, 1930, p. 366.

[17] Department of Commerce, Bureau of Foreign and Domestic Commerce, Trade Promotion Series No. 102.

There may be inaccuracies in the computation of the foregoing indices; but it is not likely that they are of such a serious nature as to render comparison invalid. At the outset it is to be noted that neither of the great price movements in the United States, the war-time rise and the decline following 1930, were so marked in Argentina. The failure of prices to rise as rapidly as the world level from 1913 to 1920 is probably chiefly ascribable to the increasing difficulties of carrying on international trade. The scarcity of shipping tended to reduce purchases from the belligerents. Gold was either not sent, or was deposited to Argentine credit, so as to provide for an increased volume of currency. It may be that the crop failure of 1917 and the poor yields of other years had the effect of keeping down the price level, since they also made specie imports less probable, by making the balance of trade less favorable. At various times during the War export restrictions were in force because of the scarcity of grains and certain manufactured products; these were likewise drags on prices in that they increased the supply of commodities in the market. The comparative isolation of Argentina, increased tremendously by maritime warfare, must be the major explanation of the disparity between the two indices, inasmuch as, for the greater part of the time, both currencies were very near to the gold standard. Until 1917 exchange rates reflected rather accurately changes of the internal purchasing power of the currencies. Thereafter the peso was under-valued in the exchanges until 1926, and the unbalance is continued in the new index beginning in that year. One is led to suspect that running the indices through the wartime rise might have invalidated any exact comparisons even though the base year was not distant. Color is lent to this supposition by the fact

that the direction of price movements taken by the indices after 1926 is reflected in the exchange with remarkable uniformity, although the absolute parity has been lost. It may be true, however, that other factors in the balance of payments, such as the reversal of capital flow which occurred from 1917 to 1920 would provide a partial explanation, as they do for the improvement of peso quotations from 1921 to 1926.

EXCHANGE RATES AND PURCHASING POWER PARITIES OF THE PESO ON THE DOLLAR, 1913-1932

| Year | Exchange | Parity | Year | Exchange | Parity |
|---|---|---|---|---|---|
| 1913..... | 98.29 | 96.5 | 1923..... | 78.57 | 110.0 |
| 1914..... | 96.39 | 93.6 | 1924..... | 78.13 | 99.63 |
| 1915..... | 93.9 | 89.7 | 1925..... | 91.38 | 104.2 |
| 1916..... | 97.24 | 99.8 | 1926..... | 92.15 | 111.7 |
| 1917..... | 101.44 | 112.7 | 1927..... | 96.30 | 108.65 |
| 1918..... | 100.93 | 112.3 | 1928..... | 96.48 | 109.6 |
| 1919..... | 99.02 | 116.1 | 1929..... | 95.13 | 110.4 |
| 1920..... | 90.7 | 121.5 | 1930..... | 85.51 | 104.7 |
| 1921..... | 73.0 | .... | 1931..... | 66.74 | 91.6 |
| 1922..... | 81.82 | 110.0 | 1932..... | 58.44 | 85.15 |

If a new series were established with 1926 as the base year, the fluctuations would have been as follows:

| Year | Exchange | Parity | Year | Exchange | Parity |
|---|---|---|---|---|---|
| 1926..... | 92.15 | 92.15 | 1930..... | 85.51 | 90.4 |
| 1927..... | 96.30 | 93.7 | 1931..... | 66.74 | 79.15 |
| 1928..... | 96.48 | 94.73 | 1932..... | 58.44 | 69.1 |
| 1929..... | 95.13 | 95.4 | | | |

In the first series, a considerable divergence appears between exchange rates and purchasing power parities as early as 1917; this increased after 1920. There are various factors which might modify the relations between prices and exchange rates, notably, the important invisible items of the balance of payments, the most weighty and variable of which is in the case of Argen-

tina the importation of foreign capital. In this connection it might be said that the reversal of the flow of capital during the War, when Argentina was temporarily a creditor country, would explain the depression of the exchange rate below the peso's comparative purchasing power. It is also true that the period of capital imports, roughly 1923 to 1927, witnessed a tendency for exchanges to move closer to purchasing power parities. One would expect that the effect would have been greater in the latter period. The writer is inclined to think that the difficulty lies in the construction of the price indices, which are not dependable at so long a distance from the base year, especially after the series have been taken through violent fluctuations. Statistical inquiry is just beginning in Argentina, moreover, and too much reliance cannot be placed upon the data.[18]

[18] Regular estimates of the invisible items of the balance of payments of Argentina have been made by the banking house of Tornquist and Company, in their business reports, from which the following summary of capital movements has been compiled. The term imports includes capital invested in new or established companies, bank transfers, government loans, and the sale of foreign bonds, or any item resulting in the acquisition of capital by Argentina; while under exports are included the redemption of Argentine bonds, subscriptions to foreign loans, repayment of mortgages, and similar items representing decreases of capital in Argentina.

ARGENTINE CAPITAL MOVEMENTS, 1919-1931

Millions of gold pesos

| Period (Oct.-Sept.) | Capital imports | Exports | Balance imports |
|---|---|---|---|
| 1919-1920 | 35.1 | 152.4 | —117.8 |
| 1920-1922 | 177.2 | 68.5 | 108.7 |
| 1922-1923 | 59.1 | 17.9 | 41.2 |
| 1923-1925 | 257.1 | 19.7 | 237.4 |
| 1925-1926 | 55.9 | 22.0 | 33.9 |
| 1926-1927 | 184.0 | 21.6 | 162.4 |
| 1927-1928 | 148.8 | 13.7 | 135.1 |
| 1928-1929 | 62.6 | 16.6 | 46.0 |
| 1929-1930 | 208.0 | 23.4 | 184.6 |
| 1930-1931 | 149.0* | 107.1 | 41.9 |

* Includes an estimate of 40 millions loss of foreign capital.

A considerable body of theory has developed in attempting explanation of the automatic correction of a balance of trade under an inconvertible paper standard, even though the exact nature of the mechanism under a metallic unit is far from settled. The matter may be stated simply thus: under a gold standard, if a country has an excess of imports at any time, its balance of trade is restored to equilibrium by a change of prices caused by the export of specie and by a consequent contraction of the supply of money and credit. There is by no means agreement that the events follow in this sequence, or that they must occur at all, or even that they are themselves significant changes at all, or anything more than mere reflections of underlying forces. There are almost as many theories of the equilibrium forces affecting the balance of trade as there are serious monetary scholars. But in general, once admitted that there is a tendency toward equilibrium, it is supposed to be brought about by a downward movement of prices in the country which needs to correct its unfavorable balance. Lower prices stimulate exports; higher prices for foreign commodities, brought about by the familiar parallel, would reduce imports, so that the balance of trade would be corrected.

In the case of a country using an inconvertible currency, a theory has been developed that price changes, to re-establish equilibrium, would be exactly the reverse.[19] With the balance of payments unfavorable, the paper money falls in value, and the price level tends to rise in accordance with the premium on gold; when the balance is favorable, prices fall as the paper increases in exchange value. The argument continues

[19] F. W. Taussig, "International Trade Under Depreciated Paper: A Contribution to Theory," *Quarterly Journal of Economics*, May, 1917.

that the same result may be expected as under the gold standard: when the balance is unfavorable exports are encouraged and imports discouraged, since the costs of the exporters lag behind the rising prices he obtains and his profits are increased, while importers are caught between higher paper costs of foreign goods and the resistance of consumers to an upward movement of prices. It is implied that prices of exports rise as compared with the general price level, and especially as compared with imports. Further, it is apparently assumed that there is no change in the purchasing power of gold, that is to say, gold prices are constant.

Recent experience in the Argentine while not necessarily conflicting with the foregoing contention, is of such character as to require at least some qualification of the theory. Since 1929, when the increasingly unfavorable balance of payments caused the peso to fall below the parity of exchange, prices did not rise in Argentina, but declined; the peso did not fall as rapidly as the purchasing power of gold was increasing. To ignore the fluctuations in the goods value of gold since 1914 is to miss the factor of greatest importance in the Argentine exchange and price level. Changes in the invisible items of the balance of payments, which have been attributed great importance during an earlier period,[20] did not exercise any dominating influence in this later period. This may have resulted from the fact that the Argentine fifty years ago was a country much weaker and smaller economically than it is today. Foreign capital imports have not increased in proportion to the growth of the nation, and have exerted less effect.

In addition to the general price level moving in this unexpected way, particular prices did not move as the

[20] By J. H. Williams, in his *Argentina International Trade under Inconvertible Paper Money, 1880-1900.*

theory would suppose. Export prices, instead of increasing, fell more rapidly than any other prices. About the only thing that can be said for the theory is that prices would have fallen more rapidly had the currency been convertible. The equalization of the balance of payments is not now so obvious, and it is difficult to believe that exports would be encouraged by rapidly declining prices. Certainly imports were considerably less discouraged than had gold prices been constant. Declining gold prices, falling more rapidly than the exchanges, resulting therefore in lower peso prices, might have encouraged imports. Yet the balance of payments was at least in part corrected, and the exact mechanism is not obvious to the writer, who is inclined to believe that a statement of price levels is an oversimplification of the matter. Exports, for instance, did not perceptibly decline in spite of low prices, which do not apparently exert any very marked effect upon agricultural production except over long periods of time. Imports, on the other hand, though offered at reduced prices, found a very real check in the decreased purchasing power of the community.

The table of prices on p. 171 presents comparative prices in Argentina since 1926. The level of wholesale prices, excluding agricultural and grazing products, is a rough index of the trend of import prices; the second index, combining all prices, shows the lower level of export prices.

In the new series of index numbers of wholesale prices beginning in 1926, the purchasing power parity moves in rather close co-ordination with the rate of exchange. Here again the Argentine price level was passive; the declining gold index is reflected primarily in the falling exchange rates, which just about offset its effect. The internal price level has declined somewhat,

WHOLESALE PRICES—ARGENTINA, 1926=100 [21]

| | 1926 | | 1927 | | 1928 | | 1929 | | 1930 | | 1931 | | 1932 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Excluding exports | All | Excluding exports | All | Excluding exports | All | Excluding exports | All | Excluding exports | All | Excluding exports | All | Excluding exports | All |
| January | 100.8 | 101.5 | 98.6 | 97.8 | 94.2 | 98.4 | 94.9 | 97.7 | 94.2 | 94.5 | 93.1 | 87.7 | 99.1 | 91.5 |
| February | 100.8 | 100.9 | 98.2 | 97.9 | 94.4 | 98.9 | 95.1 | 97.8 | 95.5 | 95.0 | 92.9 | 88.0 | 99.5 | 91.9 |
| March | 100.9 | 101.4 | 98.0 | 97.9 | 94.7 | 99.4 | 95.5 | 98.0 | 96.3 | 95.5 | 91.9 | 87.0 | 99.4 | 92.1 |
| April | 101.0 | 101.6 | 97.6 | 97.8 | 94.4 | 99.4 | 94.9 | 97.8 | 95.1 | 94.2 | 91.2 | 86.3 | 99.1 | 91.4 |
| May | 100.7 | 100.6 | 98.0 | 98.4 | 94.6 | 99.5 | 94.5 | 95.7 | 94.9 | 93.7 | 91.5 | 86.7 | 99.0 | 90.7 |
| June | 100.3 | 100.0 | 97.7 | 98.8 | 94.2 | 99.0 | 94.1 | 95.1 | 94.4 | 92.7 | 91.4 | 86.6 | ... | ... |
| July | 99.6 | 100.0 | 96.7 | 98.7 | 93.8 | 98.9 | 94.5 | 96.6 | 94.2 | 92.3 | 90.4 | 85.8 | ... | ... |
| August | 98.7 | 99.6 | 96.6 | 98.3 | 93.5 | 98.2 | 93.9 | 96.2 | 93.5 | 91.8 | 91.3 | 86.2 | ... | ... |
| September | 98.9 | 99.4 | 95.3 | 98.2 | 94.0 | 98.2 | 94.1 | 96.2 | 93.0 | 90.8 | 92.3 | 86.9 | ... | ... |
| October | 98.8 | 98.6 | 94.4 | 97.6 | 94.6 | 97.8 | 94.1 | 96.1 | 93.0 | 9.00 | 103.2 | 96.4 | ... | ... |
| November | 99.9 | 98.9 | 94.7 | 98.1 | 94.9 | 97.6 | 93.7 | 95.1 | 92.3 | 88.3 | 103.1 | 96.7 | ... | ... |
| December | 99.7 | 97.9 | 94.5 | 98.1 | 94.7 | 97.2 | 93.7 | 94.4 | 92.0 | 87.0 | 100.9 | 93.5 | ... | ... |

[21] Source: *Economic Review,* Banco de la Nación.

possibly as a result of a fairly rigid exchange control which has operated since September, 1931. During this time the peso has been held to a nearly constant gold value, so that its purchasing power has been increasing with that of gold. The purchasing power parity theory seems to explain the relationship quite accurately for this last period, without any qualifications as to the differences between import and export prices, if the new base year 1926 be used as a starting point, and the annual average of exchange rates of that year be used as parity.

We have referred to the increased issues of currency resulting from the gold imports made during the War. It may be useful to compare the progress of the price level as compared with fluctuations in the volume of the means of payment. There is no satisfactory summary figure for the other factor in the quantity theory, the physical supply of goods; but in lieu of this, the physical volume of exports will serve as a rough indication of economic growth.

Between 1915 and 1920 the means of payment, that is, the sum of money in actual circulation and total demand deposits, increased by roughly one-third, while prices increased by about two-thirds. It is probable that inaccuracies lurk in the classification of bank deposits; a great many are classified as time deposits and are not included, although their effect upon prices would be similar to that of deposits in current account. It is noteworthy, in this connection, that the volume of loans and discounts more than doubled during the same time, while the proportion of currency held by the banks likewise increased. There is of course no necessarily exact ratio to be expected between prices and the means of payment; scanty crops and increased velocity of turnover accompanying rising prices might both exert

influences. Nevertheless, it is clear that at least the increase of circulating cash and demand deposits made possible a rise in prices. The sequence clearly began with higher prices offered by European nations for Argentine products. Inability or unwillingness to send goods in return resulted in a favorable balance of

ARGENTINE PRICES, EXPORTS, CIRCULATION AND DEPOSITS IN CURRENT ACCOUNT, 1910-1931.[22]

| Year | Money in hands of the public. Millions of paper pesos | Deposits in current account. Millions of paper pesos | Price level 1913=100 | Volume of exports. Thousands of tons |
|---|---|---|---|---|
| 1910 | 382.4 | 477.8 | ..... | 7,519 |
| 1915 | 433.4 | 434.1 | 108.46 | 10,448 |
| 1920 | 511.1 | 644.0 | 179.64 | 12,957 |
| 1921 | 470.1 | 510.8 | ..... | 8,097 |
| 1922 | 515.0 | 615.7 | 130.42 | 10,187 |
| 1923 | 670.9 | 764.2 | 134.85 | 10,806 |
| 1924 | 701.5 | 881.3 | 144.97 | 14,399 |
| 1925 | 664.5 | 873.1 | 146.94 | 10,286 |
| 1926 | 612.8 | 1,149.5 * | 132.44 | 12,283 |
| 1927 | 529.2 | 1,226.3 | 98.1 † | 18,740 |
| 1928 | 530.4 | 1,317.6 | 98.5 | 17,029 |
| 1929 | 782.8 | 1,188.6 | 96.4 | 16,703 |
| 1930 | 773.0 | 1,176.0 | 92.2 | 11,027 |
| 1931 | 736.2 | 951.6 | 89.0 | 18.477 |

* New classification, succeeding figures not directly comparable with those prior to 1926.
† New Base Year 1926=100.

trade and a rising value of the peso, offset in part by gold shipments, which provided the means for expanding both currency circulation and banking credit in Argentina, and finally brought about an increase of prices in terms of pesos. Had the peso remained a purely inconvertible unit, that is, if it had not been exchanged for gold, and if no increase of circulation had occurred, the price level might have been unaffected.

[22] Data compiled from *Review of Argentine Economics*, and the *Economic Review* of the Bank of the Nation.

From 1921 to 1928 the quantity of the means of payment slowly increased, and the tendency towards the larger use of deposit currency developed. Unfortunately, banking statistics have not until recently been carefully compiled, and in shifting to the Bank of the Nation's figures in the latter part of this period a change in the method of classification is encountered, seriously invalidating comparisons.[23] There were no striking movements either in prices or in the quantity of means of payment, and the transition, therefore, does not lead to serious difficulties. It may be noticed, however, that the external funding loans did not tend to reduce deposits in current account, nor the volume of loans and discounts, though they might have retarded any increases in these magnitudes.

After 1929 the volume of means of payment began definitely to decrease and the price level to decline gradually. That the contraction of deposits and of loans and discounts did not proceed more rapidly, as would undoubtedly have occurred if a gold standard had been maintained, is attributed by the best informed Argentine authorities to the fact that a large part of banking credit has been extended to the government, and that such loans constitute an indigestible mass which cannot be reduced by the banks. Credit cannot be extensively contracted, the means of payment remain large, and prices do not fall; consequently the exchanges must inevitably decline.[24] Actually, exchange rates began to fall rapidly in the first six months of 1930, in spite of external loans totalling $75,000,000 and heavy gold exports.

[23] A much wider range of accounts was classified as current accounts, giving the appearance of an increase in purchasing power that did not actually occur.

[24] *Economic Review*, Bank of the Nation, January, 1930.

The inability to contract credit, whether or not caused by government borrowing, is certainly not an unmixed evil. It has resulted in a tolerably constant price level, a much greater desideratum, in the writer's opinion, than parity of exchanges could ever represent. The freedom from serious banking difficulties in Argentina, in spite of an almost complete lack of system, is significant testimony of the advantage of such a policy. It appears in an especially favorable light when contrasted with the havoc wrought in the United States, where gold prices, although declining less radically, broke a much stronger banking organization.

## IV. THE CENTRAL BANK

Two institutions which will probably exert an increasing influence on the Argentine price level are exchange control and a central bank. The former has been in full activity for over two years; the latter remains as yet only an idea. Immediately after the suspension of gold payments in 1929, exchange declined with wide fluctuations, rose slightly after the revolution of 1930, and then continued to decline through the first half of 1931. In the latter year, after Great Britain abandoned the gold standard, an attempt was made to stabilize peso quotations on the dollar by introducing a rather complete system of restrictions on the purchase and sale of exchange, and these have been progressively tightened. On the face of the matter, it seems rather mistaken to have stabilized the peso on the currency of a country with which trade was practically non-existent, and whose sole connection lay in the invisible items of the balance of payments, of much less importance in spite of their bulk than direct commercial relations.

The system used was briefly as follows: exchange arising from exports was required to be sold to the exchange control commission of the Bank of the Nation, and exchange needed to cover imports could be obtained only by submitting the documents proving the actuality of the purchase. This was nothing more than a voluntary agreement between the banks of the capital, inspired and authorized by the federal government. The purpose of exchange control, it soon developed, was not merely to eliminate short-time fluctuations in rates, but to hold the peso to a constant value in gold. Since September, 1931, this has been approximately twenty-six cents U. S. gold for the paper peso, as against a par of forty-two cents. In order to maintain this exports had to be definitely curtailed. Exchange has been yielded grudgingly for the purchase of such goods as radios, automobiles, vacuum cleaners, jewelry, wines and luxury articles. The order of preference as to sales of exchange has been generally, first, to satisfy the needs of the federal government for debt service; second, to purchase equipment for railroads and public utilities; third, to finance certain classes of imports; and finally, to discharge dividends and profits upon investments of foreign capital. Such severe restrictions have been placed upon the latter category that large balances have been accumulated in Buenos Aires by British, Continental, and North American firms, some of whom have now agreed to lend the money to the government for terms of ten or twenty years at a low rate of interest, virtually a foreign loan. Exchange control is generally regarded in Buenos Aires as honestly administered and highly successful. Some difficulties resulting from the unconstitutionality of the authorizing decree, such as the inability to punish smaller dealers in foreign currencies, travellers' checks

and similar small sources of foreign exchange, have now been overcome.

The effect of exchange control, in so far as successful, has been to tie the Argentine price level to gold prices, which have been constantly declining. Such a policy is of rather doubtful advantage, especially over a long period of time. It may be that more serious results can come from this than might arise from the establishment of a strong central banking system. Such a device has been advocated at many times in the past, and recently in a very competent report by Sir Otto Niemeyer, of the Bank of England, whose inquiry was the result of an invitation extended by the Argentine government. The report, besides insisting on reforms in national finances, dwelt upon the desirability of a Central Bank, and included a complete plan for its establishment. The creation of such an institution is obviously necessary before any really effective control over the value of the peso can be established. The general nature of its organization would involve no great difficulties; but the policy that such a bank should pursue offers a real challenge. It is upon this point that Sir Otto Niemeyer maintains a complete, perhaps a proper silence. It must be apparent that the utility of even so powerful an instrument as an effectively functioning central bank must be limited, if one does not know how to use it.

Sweeping banking changes could be made only with considerable difficulty. It might be argued that this very immobility and resistance to change, which are in large part responsible for the present disorganization of the financial structure, have really operated for the greatest national good by preventing the misuse of a very powerful force. It is difficult to see, for instance, how the existence of even an ideal banking system would have greatly helped the Argentine nation during

the past ten years. Possibly the government finances would have been forced to a higher plane by a severance of connections with the state bank; private institutions might have been placed in a stronger position requiring smaller reserves for safety. But the decline of agricultural prices could not have been affected in any way, since the Argentine must remain purely passive in its relation with world price levels. More than likely the central bank, had it existed from 1928 to the present, would have made vigorous efforts to keep the peso at par with the gold currencies. In the writer's opinion, this would have had much more disastrous effects than the policy actually followed. That Argentina suffered so little from the world depression, in spite of the fact that the country produces those commodiies whose values were most seriously affected by price declines, must be at least in part attributed to the behavior of the peso. Inelastic, rigid, uncontrolled, and subject to numerous other theoretical objections, the peso has sustained an extraordinarily constant level of prices. This is probably the greatest single advantage that a currency can possess. As such it deserves at the very least to be carefully weighed when the establishment of a new system is contemplated and when a currency policy is to be determined.

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